LARRY JEWELRY
INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability   Stock Code: 8351

2017
ANNUAL REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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The Report, for which the directors (the "Directors") of Larry Jewelry International Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Ms. Szeto Wai Ling Virginia *(Chairman)*
(resigned on 12 January 2018)
Ms. Ngai Ki Yee May
(resigned on 4 October 2017)

Executive Directors

Mr. Hon Kin Wai *(Chief Executive Officer)*
(resigned on 4 October 2017)
Mr. Chan Wing Chung
Mr. Luk Kee Yan Kelvin
(resigned on 20 April 2017)
Mr. Wong Kui Shing Danny

Independent Non-executive Directors

Mr. Ong Chi King
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian

BOARD COMMITTEES

Audit Committee

Mr. Shum Lok To *(Chairman)*
Mr. Ong Chi King
Ms. Szeto Wai Ling Virginia
(resigned on 12 January 2018)
Mr. Tso Ping Cheong Brian

Remuneration Committee

Mr. Ong Chi King *(Chairman)*
Mr. Chan Wing Chung
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian
Mr. Wong Kui Shing Danny

Nomination Committee

Mr. Tso Ping Cheong Brian *(Chairman)*
Mr. Chan Wing Chung
Mr. Ong Chi King
Mr. Shum Lok To
Mr. Wong Kui Shing Danny

COMPLIANCE OFFICER

Mr. Wong Kui Shing Danny
(appointed on 4 October 2017)
Mr. Hon Kin Wai (resigned on 4 October 2017)

COMPANY SECRETARY

Mr. Chan Wing Chung

AUTHORISED REPRESENTATIVES

Mr. Chan Wing Chung
Mr. Wong Kui Shing Danny
(appointed on 4 October 2017)
Mr. Hon Kin Wai (resigned on 4 October 2017)

AUDITOR

Deloitte Touche Tohmatsu

COMPLIANCE ADVISER

Lego Corporate Finance Limited

PRINCIPAL BANKERS

Bank of China
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11 Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F, Pacific House
20 Queen's Road Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer agent

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

CORPORATE INFORMATION

STOCK CODE

Stock Exchange of Hong Kong: 8351

COMPANY WEBSITE AND INVESTOR RELATIONS

www.larryjewelryinternational.com

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company and its subsidiaries (the "Group") for the last five financial years is set out below:

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**434,748**	264,082	191,769	264,414	298,256
Gross profit	**152,227**	91,702	46,026	60,201	85,646
Loss before income tax	**(831,352)**	(84,584)	(53,908)	(77,534)	(102,888)
Loss for the year attributable to owners of the Company	**(816,569)**	(83,807)	(50,450)	(74,091)	(103,267)
Basic loss per share *(HK cents)*	**(24.21)**	(5.82)	(13.33)	(2.64)	(6.78)

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**205,622**	399,791	114,934	74,058	93,564
Current assets	**643,723**	453,396	205,364	310,945	338,534
Current liabilities	**438,743**	229,744	15,817	19,934	190,056
Net (liabilities) assets	**(151,064)**	588,830	297,298	354,113	227,658

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the Group's annual results for the year ended 31 December 2017 (the "Year").

During the Year, the Group principally engaged in (i) design and sale of a broad range of fine jewelry products in Hong Kong and Singapore; and (ii) sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in Hong Kong, Macau and the Mainland China. The Group's revenue and gross profit for the Year increased by approximately 64.6% and 66.0% respectively. In order to tackle the tough operating environment, the Group implemented stringent long-term cost control measures. The Group's net loss for the Year increased by approximately 874.3%.

Looking ahead, the Board and management expect the business environment to remain challenging but we are cautiously optimistic towards the overall outlook of the Group. We will endeavor to stabilise the existing jewelry retail operations and seek for new income source to enable the Group to grow and move forward. We try to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

BUSINESS REVIEW AND PROSPECTS

The Group's business can be broadly categorised into two main sectors: (i) jewelry and (ii) pharmaceutical and health food products.

Jewelry

A new flagship shop will open in a high-end shopping mall in Central in April 2018.

The jewelry segment focuses on design and sales of jewelry products under the "Larry Jewelry" brand. The Group focuses on the development of products that are unique in design and of superb craftsmanship to meet the needs of individuals who have a discerning taste in jewelries.

The luxury goods market in Hong Kong remained soft in 2017, and the jewelry segment recorded a drop in revenue of about 6.7% for the year ended 31 December 2017 as compared to 2016. Although there is a slight rebound of Hong Kong retail market according to recent statistics, Hong Kong is still facing weak momentum in retail industry. The Group managed to achieve a better profit margin in both Hong Kong and Singapore market.

The Group remains cautiously optimistic in the luxury jewelry market in the long-run. The Group will explore opportunities to broaden the geographic base of customers to markets outside Hong Kong and Singapore and increase its visibility across South East Asian countries. The Group also seeks to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

Pharmaceutical and health food products

The acquisition of the entire issued share capital in and the shareholder's loan to Tung Fong Hung Investment Limited ("TFH") at a consideration of HK$600,000,000 with HK$450,000,000 cash and the issue of convertible bonds of HK$150,000,000 in value was completed on 22 August 2016. For details, please refer to the circular of the Company dated 30 June 2016. Since then, TFH became a wholly-owned subsidiary of the Group.

TFH and its subsidiaries are principally engaged in the business of sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in the brand name of "Tung Fong Hung" ("東方紅") in Hong Kong, Macau and the mainland China. In Hong Kong, Tung Fong Hung Medicine Company Limited, the retailing arm of TFH, is a licensed manufacturer of nine types of traditional Chinese medicine ("TCM") under the Chinese Medicine Ordinance. As at 31 December 2017, TFH has 15 retail shops in Hong Kong, 3 retail shops in Macau and 39 retail outlets in the mainland China. A new retail shop will open in a high-end shopping mall in Tai Kok Tsui in April 2018. The head office of TFH is located at Tai Po Industrial Estate in Hong Kong.

TFH's sales for the financial year ended 31 December 2017 were approximately HK$283,420,000 (during the period from 23 August 2016 to 31 December 2016 (the "Post Acquisition Period") : HK$101,897,000.).

Despite the weak retail market, TFH Macau contributed operating profits of approximately HK$629,000 (2016: HK$1,094,000) to the Group during the Year.

Looking ahead, TFH shall review the sales network and customer focus of TFH and to introduce more locally made products to suit the needs of domestic market through its newly refurbished food and TCM production facilities.

In light of the recent business environment and financial resources on hand, the Group will continue to seek for suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and the shareholders of the Company as a whole.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Year was approximately HK$434,748,000 compared to approximately HK$264,082,000 for the last financial year, representing an increase of about 64.6%, which was mainly attributed to increase in revenue of TFH of approximately HK$181,523,000 and offset by approximately HK$10,857,000 decrease in revenue in jewelry segment.

Gross Profit

The Group's gross profit for the Year increased by about 66.0% to approximately HK$152,227,000 compared to approximately HK$91,702,000 for the last financial year. The Group's gross profit margin was approximately 35.0% compared to approximately 34.7% for the last financial year.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year increased by about 97.6% to approximately HK$148,583,000 compared to approximately HK$75,179,000 for the last financial year. The increase was mainly attributable to increase in selling and distribution expenses of TFH during the Year compared to expenses of only 4 months recognised last year.

Administrative Expenses

The Group's administrative expenses for the Year increased by about 213.8% to approximately HK$172,046,000 compared to approximately HK$54,834,000 for the last financial year. The increase was mainly attributable to increase in administrative expenses of TFH during the Year expenses of compared to recognised last year only 4 months.

Impairment Loss on Goodwill

During the Year, the Group recognised impairment loss on goodwill of HK$105,258,000 (2016: HK$57,958,000). Please refer to note 18 to the consolidated financial statements for details.

Finance Costs

The Group recorded finance cost of approximately HK$19,149,000 (2016: HK$102,000) for the Year, which was due to increase in interest on bank and other borrowings and effective interest on bonds during the Year.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company was approximately HK$816,569,000 for the Year compared to a loss of approximately HK$83,807,000 for the last financial year. The increase in the loss of approximately HK$732,762,000 was mainly attributable to the impairment loss on goodwill and intangible assets, equity-settled share-based payment expenses, loss on redemption of convertible bonds, loss on fair value changes of convertible bonds and warrants of approximately HK$666,493,000 in total recognised during the Year. For details, please refer to the notes 18, 19, 29 and 30 to the consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$257,942,000 (2016: HK$66,830,000 and pledged bank deposits of approximately HK$17,912,000 (2016: HK$15,748,000). As at 31 December 2017 and 2016, the Group had bank and other borrowing, bonds and convertible bonds amounted to approximately HK$18,178,000 (2016: HK$8,117,000), HK$73,226,000 (2016: nil) and HK$542,282,000 (2016: HK$133,412,000), respectively. The gearing ratio which is defined as bonds, warrants, convertible bonds and bank and other borrowings in total divided by total equity was approximately -571% (2016: 24%).

As at 31 December 2017, the Group had net current assets of approximately HK$204,980,000 (2016: HK$223,652,000). The current ratio of the Group as at 31 December 2017 was approximately 1.5 (2016: 2.0).

The Group financed its operations principally by revenue generated from business operations and available bank and cash balances. Management considers the financial position of the Group is healthy with adequate working capital for daily operations.

ISSUE OF BONDS WITH WARRANTS AND CONVERTIBLE BONDS

On 31 July 2017, the Company issued bonds with principal amount of HK$100,000,000 together with unlisted warrants with subscription rights to subscribe for 670,000,000 shares with subscription price of HK$0.15 per share (subject to adjustment) on the first anniversary of issue of warrants. Details are set out in the circular of the Company dated 10 July 2017.

On 31 July 2017, the Company issued convertible bonds with principal amount of HK$100,000,000 convertible into 400,000,000 shares at HK$0.25 per conversion share (subject to adjustment) with maturity date of the date falling on the date being the second anniversary of the issue date of the issue date of the convertible bonds. Details are set out in the circular of the Company dated 10 July 2017.

On 4 September 2017, the Company issued convertible bonds with principal amount of HK$210,000,000 convertible into 700,000,000 shares at HK$0.30 per conversion share (subject to adjustment) with maturity date of the date falling on the date being the second anniversary of the issue date of the issue date of the convertible bonds. Details are set out in the circular of the Company dated 10 July 2017.

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings (note 28), convertible bonds (note 29), bonds and warrants (note 30) and accrued coupon interest (included in "other payables and accruals"), net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

CAPITAL COMMITMENTS

As at 31 December 2017, the capital commitments in respect of acquisition of plant and machinery contracted for but not provided in the consolidated financial statements amounted to approximately HK$732,000 (2016: HK$793,000).

OPERATING LEASE COMMITMENTS

The Group's operating lease commitments which are primarily related to the leases of its office premises and retail premises, amounted to approximately HK$74,742,000 and HK$95,379,000 as at 31 December 2017 and 2016, respectively.

SIGNIFICANT INVESTMENT

As at 31 December 2017 and 2016, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There was no material acquisitions nor disposals of subsidiaries or affiliated companies during the Years. The Acquisition was completed in August 2016.

Acquisition

As disclosed in the announcement of the Company dated 11 March 2015, Fame Treasure Global Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "SPA") on 11 March 2015 in relation to, among others, the Acquisition of 100% of the issued share capital of Tung Fong Hung Investment Limited (together with its subsidiaries, the "Target Group"), at a consideration of HK$600,000,000 (the "Consideration"). The Target Group is principally engaged in the business of sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in Hong Kong, Macau and the Mainland China. The Acquisition is completed on 22 August 2016.

Save as disclosed above, there were no material acquisition or disposals of subsidiaries and affiliated companies during the Year.

PLEDGE OF ASSETS

As at 31 December 2017, the Group's pledged bank deposits of approximately HK$17,912,000 (2016: HK$15,748,000) were pledged as securities for bank guarantees provided by banks to certain suppliers and credit facilities provided by banks.

CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group had no significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group's exposure to currency risk was limited to its pledged bank deposits and trade payables denominated in United States Dollars ("USD") as majority of the Group's transactions, monetary assets and liabilities are denominated in Hong Kong Dollars ("HK$"), Renminbi ("RMB") and Singapore Dollars ("SGD"). The Group is of the opinion that its exposure to foreign exchange rate risk is limited. The Group will continue to monitor its foreign currency exposure closely.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies with stringent credit control and monitoring policies. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that it can meet the funding requirements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 452 (2016: 494) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK$141,084,000 (2016: HK$39,972,000). Increase in total staff cost is due mainly to share option granted during the Year. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. Year-end bonuses based on individual performance are paid to employees as recognition of, and reward for, their contributions. Other benefits include contributions to statutory mandatory provident schemes to the employees as well as a share option scheme.

OUTLOOK

Looking ahead, the Group expects the retailing environment will remain challenging, while the Group remains cautiously optimistic in the retail market in the long-run. The Board and management of the Group will carefully consider the nature of all future investments based on the market environment. In 2018, the Group will focus its efforts on the following strategic initiatives:

a. Consumer Markets Broadening

The Group has established a significant presence for the "Larry Jewelry" and "Tung Fong Hung" brand in Asia and will continue to expand by identifying suitable sites to open more retail outlets in Hong Kong, Macau, Singapore and the Mainland China with detailed plans.

The Group will also look for viable business opportunities outside Asia for the development of the Group's overseas markets to reach a broader geographical spread of customer and increase its visibility throughout the world.

b. Consumer Diversification

The Group will seek to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience at a competitive price.

The Group is also in the view that working executives are individuals with more disposable income and will pursue a better lifestyle and unique products. They are more eager to spend on consumer products to reward themselves as well as reflect their taste and personality.

The Group will develop different digital marketing channels, such as reinvention of the Company's website, to capture the consumers from all walks of life.

c. Cost Reduction Program

The Group believes that improving and maintaining the efficiency of the business is key to its long-term success. As such, the management of the Group will continue to apply the existing cost control measures, periodically reviewing and adjusting the measures as appropriate to optimize the allocation of resources.

The Group will also review the current retail network in Hong Kong, Macau, Singapore, the Mainland China and cautiously assess the performance of existing retail stores. The Group will consider closing non-performing stores upon expiration of their lease periods so as to focus on locations that have high foot traffic in areas that attract a significant number of potential customers, including but not limited to tourists, thus maximising the efficiency of its operations.

The management will also remain dedicated improving same-store sales and inventory turnover through the introduction of workshops, customer events and marketing campaigns. The Group believes these activities will allow the customers with more opportunities to understand the industry and the Group's products, as well as increase their confidence on "Larry Jewelry" and "Tung Fong Hung" brand and the services of Group.

d. Potential Acquisition

In light of the tough retail market, the Group will continue to explore suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and its shareholders as a whole. As such, it is the Group's business strategies to seek for possible acquisition of a business other than the design and sale of jewelry products and pharmaceutical and health food products, and to expand its retail market to other regions of the Greater China.

The Group will try its best endeavor to implement these strategic initiatives and enable the Group to grow and move forward.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, the customers, suppliers, banks and other business associates of the Group for the continued support. I would also like to thank our Directors, management team and staff, whose talent and efforts are the Group's most valuable resource for further development.

Wong Kui Shing Danny
Executive Director
Hong Kong, 26 March 2018

DIRECTORS

Executive Directors

Mr. Chan Wing Chung ("Mr. Chan"), aged 42, was appointed as an executive Director on 3 October 2016. He is also a member of the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee"), company secretary and authorised representative of the Company. Mr. Chan holds a bachelor's degree of arts in accountancy and a master's degree in corporate governance from The Hong Kong Polytechnic University. He is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Chan has more than 20 years of experience in financial management, information technology, corporate finance and acquisition transactions. Prior to joining the Company, Mr. Chan had been the chief financial officer of SMI Culture & Travel Group Holdings Limited (stock code: 2366), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange''), and held senior management positions in a number of companies listed in Hong Kong and the United States of America.

Mr. Wong Kui Shing Danny ("Mr. Wong"), aged 58, was appointed as an executive Director on 3 October 2016. He is also a member of the Remuneration Committee and Nomination Committee and authorised representative of the Company. Mr. Wong holds a Bachelor of Arts degree from the University of Hong Kong. He has extensive exposure in the financial and investment fields for over 20 years and is well experienced in the international investment market.

Mr. Wong was appointed as an executive director, the chairman and the chief executive officer of China Information Technology Development Limited (stock code: 8178), the shares of which are listed on the GEM, in March 2015, July 2015 and October 2015, respectively. He was appointed as an executive director and a chief executive officer of Ceneric (Holdings) Limited (stock code: 0542) in August 2015 and November 2016, respectively, an independent non-executive director of Far East Holdings International Limited (stock code:36) with effect from 18 July 2017, an independent non-executive director of Tech Pro Technology Limited (stock code: 3823) with effect from 27 September 2017, and an executive director of Huiyin Holdings Group Limited (formerly known as Share Economy Group Limited) (stock code: 1178) in May 2017, both companies are listed on the main board of the Stock Exchange. He was also appointed as a non-executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 8181), the shares of which are listed on GEM, in October 2015. Mr. Wong was a former executive director and a managing director of See Corporation Limited (stock code: 0491) from December 2009 to January 2015, a former executive director of SMI Holdings Group Limited (formerly known as SMI Corporation Limited) (stock code: 0198) from November 2011 to June 2014, a former non-executive director of Investec Holdings Limited (stock code: 1087) from September 2015 to June 2017, and a former executive director of China Oil and Gas Group Limited (''China Oil'') (stock code: 0603) from September 2004 to August 2006, all companies are listed on the main board of the Stock Exchange.

Pursuant to the listing enforcement notice/announcement of the Stock Exchange dated 16 October 2008, Mr. Wong, together with another former director of China Oil, had admitted breaching the directors' declaration, undertaking and acknowledgement with regard to directors given by each of them to the Stock Exchange in the form set out in Appendix 5B to the Rules Governing the Listing of Securities on the Stock Exchange (the ''Listing Rules'') in failing to use their best endeavours to procure China Oil's compliance with the Listing Rules in relation to the failure of China Oil to publish its annual results and annual report for the year ended 31 July 2005 by 30 November 2005 and the interim results and interim report for the six months ended 31 January 2006 by 30 April 2006. Accordingly, the listing committee of the Stock Exchange publicly criticised Mr. Wong and another former director of China Oil for their respective breaches mentioned above.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Ong Chi King ("Mr. Ong"), aged 44, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. Mr. Ong holds a bachelor degree in business administration from The Hong Kong University of Science and Technology and a master degree in corporate finance from The Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Ong has more than 20 years of experience in accounting, company secretarial field and finance. He has held senior positions in finance and company secretarial departments in various listed companies in Hong Kong. Mr. Ong was a director of Fitness Concept International Holdings Limited, which was incorporated in the Cayman Islands and was dissolved in June 2005 by striking off due to cessation of business. Mr. Ong is an independent non-executive director of China Environmental Resources Group Limited (stock code: 1130) and Hong Kong Education (Int'l) Investments Limited (stock code: 1082), all of which are listed on the main board of the Stock Exchange. He is also an executive director of Deson Construction International Holdings Limited (stock code: 8268), which is listed on GEM. Mr. Ong was the independent non-executive director of Capital VC Limited (stock code: 2324), WLS Holdings Limited (stock code: 8021), Wan Kei Group Holdings Limited (stock code: 1718), King Force Group Holdings Limited (stock code: 8315) and KSL Holdings Limited (stock code: 8170) from January 2012 to March 2017, April 2015 to March 2017, June 2015 to March 2017, July 2014 to September 2016 and November 2014 to June 2016, respectively.

Mr. Shum Lok To ("Mr. Shum"), aged 39, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of Audit Committee and a member of each of the Remuneration Committee and Nomination Committee. Mr. Shum holds a bachelor degree of business administration in accountancy from City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Shum has over 15 years of experience in accounting, external and internal auditing and finance in Hong Kong and the PRC. Mr. Shum worked in PricewaterhouseCoopers with the last position as a manager and Deloitte Touche Tohmatsu as a manager. Since 2008, Mr. Shum was the finance manager of a subsidiary of a multinational conglomerate company, shares of which are listed on the main board of the Stock Exchange, and was further promoted to hold senior positions of the said subsidiary in 2016. He was also the head of finance of a joint venture at Guangdong, the PRC of the said multinational conglomerate company since 2010. Mr. Shum was appointed as an executive director of Kong Shum Union Property Management (Holding) Limited ("Kong Shum") (stock code: 8181), shares of which are listed on GEM, on 28 July 2014, re-designated to a non-executive director of Kong Shum on 6 February 2015 and resigned on 8 March 2016.

Mr. Tso Ping Cheong Brian ("Mr. Tso"), aged 37, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Tso holds a bachelor degree in accountancy and a master degree in corporate governance from The Hong Kong Polytechnic University. He is a practising and fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He was also a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Tso has over 10 years of experience in accounting and financial management. From 2003 to 2008, he worked in Ernst & Young with last position as a manager. Mr. Tso was then being the financial controller of Greenheart Group Limited (stock code: 0094) (formerly known as Omnicorp Limited), shares of which are listed on the main board of the Stock Exchange from 2008 to 2010. Mr. Tso was the senior vice president of Maxdo Project Management Company Limited from 2010 to 2012. Since January 2013, he has been the sole proprietor of Teton CPA Company, an accounting firm in Hong Kong. Mr. Tso was a non-executive director of Kong Shum from July 2014 to February 2015. He was appointed as an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) on 2 July 2014, shares of which are listed on GEM. Mr. Tso was appointed as an independent non-executive director of Newtree Group Holdings Limited (stock code: 1323) on 27 February 2015 and the company secretary of China Infrastructure Investment Limited (stock code: 600) on 9 March 2015, both of which are listed on the main board of the Stock Exchange. He was appointed as an independent non-executive director of Guru Online (Holdings) Limited (stock code: 8121), shares of which are listed on GEM. He was appointed as a joint company secretary of China Yu Tian Holdings Limited (stock code: 8230) with effect from 1 January 2014 and company secretary of Fineland Real Estate Services Group Limited (stock code: 8376) with effect from 21 March 2017, the shares of which were initially listed on the GEM on 29 December 2015 and 15 November 2017, respectively.

SENIOR MANAGEMENT

Ms. Ng Swee Choo Catherine ("Ms. Ng"), aged 62, is the managing director of the company in Singapore and has worked for the company for more than 40 years. Ms. Ng is a strong leader who is responsible for all business and supporting functions of the company. With her passion for the industry and her loyalty to the company, Ms. Ng has gained strong supports from her internal staff members and external business partners to run and maintain a healthy operation for the company over the past years. Ms. Ng holds a degree in Management.

Mr. Tay Yam Sheng Eric ("Mr. Tay"), aged 56, is the retail director of the company in Singapore and has worked for the company for more than 34 years. Mr. Tay is an effective front line leader who is responsible for the retail operations in Singapore and the sales management for the South East Asian markets. With his extensive experience in the industry and his excellent customer service, Mr. Tay has made valuable contributions and has built a strong loyal customer base for the company over the past years. Mr. Tay holds a professional diploma in Retail Management.

WORKPLACE QUALITY

Working Condition

The Group strives to provide a pleasant and healthy workplace for its employee. The Group care for its employee and recognise that having good staff relations and a motivated workplace play vital role in the Group's efficient operation. In order to fully develop staff competence and potential, the Group has employee handbooks for different business units that ensure each staff understand the policy of the Group. The employee handbooks highlight general information about the company and policies relating to staff employment. The contents of the employee handbooks are subject to periodic review and changes will be notified by internal memorandum.

Employee Development and Welfare

The Group recognises employees as valuable assets of the Group and the Group strictly complies with the labour laws and regulations of the regions it operates and review regularly the existing staff benefits for improvement.

The Group's remuneration package is structured with reference to the individual performance, working experience and prevailing salary levels in the market. In additional to basic salaries and the MPF Scheme, staff benefits include a flexible leave arrangement, staff purchase scheme, medical coverage scheme, festival gift and annual dinner.

Performance evaluations will be re-initiated each year. Recognising the value in the skill and experience of its staff, the Group intends to adopt a policy that any promotions will be considered internally first before hiring any outside staff. It is the Group's policy to select the most suitable candidate for appointment to a higher rank based on merit, rather than on the seniority of the candidates.

Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group. The annual performance evaluation will be conducted annually. During the performance discussion, staff and management team will meet and talk about the expectations of their jobs so that a mutual understanding of staff responsibilities and performance objectives for the year can be reached.

By offering competitive remuneration package and welfare to staff, its staff turnover rate remains stable in 2016, while job productivity and staff's performance are kept at satisfactory levels.

Workforce by Employment and Region

As at 31 December 2017, the Group had employed total 452 (2016: 494) staffs. Total workforce geographical region and age and gender group are as follows:

Workforce by region

	Number of workforce	
Region	**2017**	2016
Hong Kong	**155**	169
Macau	**15**	18
Singapore	**27**	30
Mainland China	**255**	277
	452	494

Workforce by age and gender

	Below 30	30–50	Over 50	Male	Female	Total in percentage
2017						
Age	11%	70%	19%			100%
Gender				26%	74%	100%
2016						
Age	13%	69%	18%			100%
Gender				27%	73%	100%

Health and Safety

The Group makes the health and life safety of its employees in a close attention focus. The Group provide its employee with flexible rest leave arrangement, medical and hospital scheme. The Group also aware that the good working environment for its employees with a safe and comfortable working condition is very important. The Group has set work arrangement for typhoon and rainstorm warning. In the past years under review, there is no staff fatalities nor serious work related injuries from the Group's operation.

Development and Training

The Group believes that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. Training that providing employees with the opportunities to learn pays dividends for the Group and its employees. The Group gets better-skilled staffs who are more versatile and flexible in their assignments, and employees get the opportunity to learn new skills, gain new ways of viewing the world, and network with others. Except for the training course or seminars sponsored by the Company, all employees can apply for training courses and examination leave that are recommended by their managements. Which in their view, is beneficial both to the Company's corporate direction and to the employees' career development.

Labour Standards

The Group has comply with labour laws and government regulations set out by Hong Kong, Macau, Singapore and the Mainland China. The Group does not employ staff who are below 18 years of age. No employee is paid less than the minimum wage specified by the government regulations. Monthly salary payments are made on time according to the employee handbooks and the MPF Scheme paid for a contribution period before monthly contribution day.

Special Leave arrangement

Except for annual leave, the Group provides special leave arrangement for employees, which including:

Compensation leave or non-office hour support allowance will be granted to employees who are required to work during non-office hours for scheduled tasks;

Maternity leave and paternity leave is granted in accordance with the employment ordinance; and

Compassionate leave will be granted to permanent employees on the death of a member of the immediately family.

Employee Insurances

Labour insurance coverage for all employees in Hong Kong, Macau, Singapore and the Mainland China, which includes medical and hospital insurance in Hong Kong, Macau and Singapore and unemployment insurance, pension and maternity insurance in the PRC.

ENVIRONMENTAL PROTECTION

Environmental Policy

The Group aims to protect the environment by minimising environmental adverse impacts in daily operations, such as energy saving and recycling of office resources. The Group will continue to seek for better environmental practices and promote the right environmental attitudes within the organization.

The Group's business does not involve any nature resources emissions. However, the Group execute practices that improve energy efficiency, conserve resources for its operation and raise environmental awareness for its employee. The key environmental impacts from the Group's operations related to energy, water and paper consumption. To achieve environment protection, the Group encourage employees to shift to e-statement or scanning to reduce its use of paper and greenhouse gas emissions; switch off all computers and office equipment, electrical and airconditioner at the end of each working day and during lunch break. Actual numerical results for the year under review, paper consumption approximately 297 thousand pieces of paper (2016: 222 thousand pieces of paper), electricity consumption approximately 1,726 thousand kWh (2016: 695 thousand kWh), water consumption approximately 6,988 tonnes (2016: 2,345 tonnes), gas consumption approximately 135,716 million Joule (2016: 30,358 million Joule). Increase in energy, water and paper consumption compared to last year is due mainly to acquisition of TFH is completed during the year. The Group focus on paper and toner usage throughout all of its operation and the Group have always been devoted to reduce energy consumption.

OPERATING PRACTICES

Relationships with Stakeholders

The Group provides good quality products and services to the customers and maintains a good relationship with the customers. The Group keeps a VIP customer database for direct communications with VIP customers and prompt notification of different types of promotions and sales campaigns.

All employees of the Group are committed to protecting the personal information of customers in strict compliance with relevant laws and regulations. The personal information of customers should be used in the proper context only for authorised business purposes. It benefits for both the Group and customers, and emphasises on the importance and ethical concern.

The Group maintains effective communication and develops a long-term trust relationship with the suppliers. During the Year, there was no material dispute or arguments between the Group and the suppliers.

Anti-Corruption

The Group aims to maintain a high standard of business ethics, certain policies and practices has been implemented for the Group prohibits bribery and corrupt practices. The Group has set out the company policy on the acceptance of advantages. Those involved in the selection of and purchase from suppliers and contractors to avoid any misuse of authority or engage in situations which could affect or appear to affect employee ability to make free and independent decisions regarding the purchase and procurement of goods and services. The policy and practices affect their objectivity in conducting the Company's business, or induce them to act against the interest of the Company, or lead to allegations of impropriety. Any advantage given in the conduct of the Company's business should be in accordance with the Company's prevailing policies on such matters and prior written approval of the Company should be obtained.

As at the date of this report, no employee concluded legal cases regarding corrupt practice, solicit or accept any advantage from any person having business dealings with the Company (2016: Nil) (e.g. customers, suppliers or contractors).

COMMUNITY INVESTMENT

The Group encourages our staffs to participate in volunteering events, which could provide an opportunity for them to connect outside the workplace while contributing to the local communities, and the Group target through donations and sponsorships by supporting non-profit-making organisation to help charitable, cultural, educational and other needs of society. During the Year, the Group supported its staff to join several fund-raising activities. The Group wishes to raise fund as caring for people in need and supporting philanthropy activities; taking part in and sponsoring fund-raising activities to the social.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group mainly carries out its businesses in Hong Kong, Macau, mainland China and Singapore. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has materially complied with all relevant laws and regulations in Hong Kong, Macau, Mainland China and Singapore during the Year.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable development and growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

Throughout the Year, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("the Code"). The Company had made specific enquiry of the Directors and all the Directors confirmed that they had complied with the required standard set out in the Code during the Year.

THE BOARD

Composition

The Board currently comprises two executive Directors, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny and three independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this Report. The latest list of the Directors and their respective roles and functions was published both on the websites of the Company and the Stock Exchange.

The Company has three independent non-executive Directors, at least one of whom is with appropriate professional qualifications or accounting or related financial management expertise throughout the Year, in compliance with the GEM Listing Rules. Each of the independent non-executive Director has made an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Role and Delegation

The Board has the responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board is accountable to shareholders for the strategic development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

Directors have access to the advice and services of the company secretary of the Company (the "Company Secretary") who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company, at the expense of the Company. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Generally, the responsibilities of the Board include:

- formulation of long and short term operational strategies including policies relating to key business and financial objectives of the Company, material acquisitions, investments, disposal of assets or any significant capital expenditure;

- overseeing and reviewing of its financial performance and results and the internal control systems;

- approving appointment, removal or re-appointment of the Directors for election/re-election in general meetings;

- communicating with key stakeholders, including shareholders and regulatory bodies;

- performing corporate governance functions in accordance with the CG Code, including the reviewing and monitoring the corporate governance practices of the Group; and

- recommendation to shareholders on final dividend and the declaration of any interim dividends.

Decisions regarding the daily operation and administration of the Company are delegated to the management, led by the executive Directors and the CEO.

The Directors can attend meetings in persons or through other means of electronic communication in accordance with the bye-laws of the Company (the "Bye-laws"). During the Year, the Board held 5 meetings.

All Directors assume the responsibilities to shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

The Company has arranged appropriate insurance cover for the Directors in connection with the discharge of their responsibilities.

DIRECTORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are ultimately responsible for the preparation of the financial statements for each financial year which gives a true and fair view. In preparing the financial statements, appropriate accounting policies and standards are selected and applied consistently.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 32 to 35 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Chairman plays a leading role and is responsible for effective running of the Board while the CEO is delegated with the authority and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives.

APPOINTMENT AND RE-ELECTION

Pursuant to the Bye-laws, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. In addition, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

INDUCTION AND CONTINUOUS DEVELOPMENT

Each newly appointed Director receives a comprehensive induction package (the "Package") designed to enhance his/her knowledge and understanding of the Group's culture and operations. The Package usually includes a briefing or an introduction to the Group's structure, businesses strategies, recent developments and governance practices. The Packages have been sent to all Directors newly appointed during the Year.

The Group provided continuous professional training and Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates from time to time. In addition, all Directors were requested to provide the Company with the records of the other training they received. During the Year, the Group provided several seminars and training courses to Directors.

BOARD COMMITTEES

The Board is currently supported by the Audit Committee, Remuneration Committee and Nomination Committee to oversee specific areas of the Company's affairs. Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties and responsibilities. These terms of reference were published both on the websites of the Company and the Stock Exchange.

Remuneration Committee

The Board has established a Remuneration Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The Remuneration Committee currently comprises two executive Director, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny, and three independent non-executive Directors, namely Mr. Ong Chi King (chairman of the Remuneration Committee), Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

The Remuneration Committee is responsible for, inter alia, reviewing and making recommendations to the Board on the remuneration package of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

During the Year, the Remuneration Committee held 2 meetings.

Nomination Committee

The Board has established a Nomination Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and September 2013). The Nomination Committee currently comprises two executive Director, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny, and three independent non-executive Directors, namely Mr. Tso Ping Cheong Brian (chairman of the Nomination Committee), Mr. Ong Chi King and Mr. Shum Lok To.

The Nomination Committee is responsible for, inter alia, reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity needed in the future), formulating nomination policy, making recommendations to the Board on nomination, appointment or re-appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender, having due regard for the benefits of diversity on the Board.

As at the date of this Report, the Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of executive and non-executive directors so that there is a strong independent element on the board, which can effectively exercise independent judgement.

During the Year, the Nomination Committee held 1 meeting.

Audit Committee

The Board has established an Audit Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and 30 December 2015). The Audit Committee currently comprises one non-executive Director, namely Ms. Szeto Wai Ling Virginia, and three independent non-executive Directors, namely Mr. Shum Lok To (chairman of the Audit Committee), Mr. Ong Chi King and Mr. Tso Ping Cheong Brian. The terms of reference of the Audit Committee are aligned with the provisions set out in the CG Code. The Audit Committee performs, amongst others, the following functions:

- ensure that co-operation is given by the Company's management to the external auditors where applicable;
- review the Group's quarterly, half yearly and annual results announcements and the financial statements prior to their recommendations to the Board for approval;
- review the Group's financial reporting process, risk management and internal control system; and
- review of transactions with interested persons.

During the Year, the Audit Committee held 4 meetings.

BOARD AND BOARD COMMITTEES MEETINGS

The Board meets regularly at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities.

Notices of regular Board meetings were served to all Directors at least 14 days before the meetings. For all other Board and Board committees meetings, reasonable notices were given.

The agenda together with all relevant meeting materials are normally sent to all Directors or Committee members at least 3 days before (or other agreed period) each regular Board or Board committees meetings to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the management whenever necessary.

According to the current Board practice, any material transactions involving a conflict of interest with a substantial shareholder of the Company or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The individual attendance records of each Director at the Board, Board committees and general meetings during the Year are set out below:

	Number of meetings attended/held				
Name of Directors	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	AGM
Executive Directors					
Mr. Chan Wing Chung	4/4	N/A	2/2	1/1	1/1
Mr. Hon Kin Wai	3/3	N/A	N/A	N/A	1/1
Mr. Luk Kee Yan Kelvin	1/1	N/A	N/A	N/A	N/A
Mr. Wong Kui Shing Danny	4/4	N/A	2/2	1/1	0/1
Non-executive Directors					
Ms. Szeto Wai Ling Virginia	4/4	4/4	N/A	N/A	1/1
Ms. Ngai Ki Yee May	3/3	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Ong Chi King	4/4	4/4	2/2	1/1	0/1
Mr. Shum Lok To	4/4	4/4	2/2	1/1	0/1
Mr. Tso Ping Cheong Brian	4/4	4/4	2/2	1/1	0/1

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had engaged an external professional firm to conduct a review on the effectiveness of the Group's internal control and risk management systems once during the year ended 31 December 2017 which covered financial, operational, compliance procedural and risk management functions and the Board had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. In light of the size and scale of the Group's businesses, the Board is also delegated with the responsibilities for the internal control of the Group and for reviewing its effectiveness. As such, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary.

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of its Shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITORS' REMUNERATION

During the Year, the fees paid or payable to the external auditors of the Company are approximately HK$4,000,000 for audit services and nil for non-audit services mainly in connection with the special engagements, respectively.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to approval by the Board in accordance with the Bye-laws. During the year, Mr. Chan Wing Chung ("Mr. Chan") was the Company Secretary. Mr. Chan is an executive Director of the Company.

The Board of the Company or their duly appointed delegate, is the primary point of contact at the Company for the Company Secretary.

Mr. Chan has confirmed to the Company that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2017.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

Access to Information

The Board recognises the importance of maintaining on-going communication with shareholders. The Company proactively promotes investor relations and communications with shareholders is always given high priority. The aims of the Company are to improve its transparency, gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from shareholders. To ensure all shareholders have equal and timely access to important information of the Company, the Company make extensive use of several communication channels, including publication of financial reports, notices, circulars and announcements, together with other filings as prescribed under the GEM Listing Rules and key news and developments of the Group on its corporate website at www.larryjewelryinternational.com. The "Investor Relations" section offers a level of information disclosure in easily and readily accessible form and provides timely updates to shareholders.

Communication with Shareholders

A shareholders' communication policy was adopted by the Company to maintain an on-going dialogue with shareholders and encourage them to communicate actively with the Company.

In addition to accessing information on the corporate website, enquiries or request of information, to the extent it is publicly available, from shareholders and other report users are welcome by email, telephone or in writing to Mr. Chan at:

Address: Room 704, 1063 King's Road, Quarry Bay, Hong Kong
Telephone: (852) 3151-0321
Facsimile: (852) 3151-0320
Email: eric.chan@larryjewelry.com

Any shareholding matters, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Hong Kong branch share registrar and transfer office of the Company:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980-1333
Facsimile: (852) 2810-8185

Shareholders are encouraged to attend all general meetings of the Company to stay inform the strategies and goals of the Group. The notices of the AGM and special general meetings of the Company were circulated to all shareholders in accordance with the requirements of the GEM Listing Rules and the Bye-laws. The chairman of the meeting explains the detailed procedures for conducting a poll and then answers any questions from shareholders. The results of voting by poll are published on the websites of the Stock Exchange and the Company after the meetings.

Shareholders' Rights

In accordance with the bye-law 58 of the Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

For including a resolution to propose a person for election as a Director at general meeting, shareholders are requested to follow the Bye-laws. A written notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company in Hong Kong provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting of the Company appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules.

CONSTITUTIONAL DOCUMENTS

The latest version of the Bye-laws and memorandum of association of the Company has been published both on the websites of the Company and Stock Exchange since 30 March 2012 and did not made any amendments to the Company's constitutional documents during the Year.

TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holdings of Shares.

REPORT OF THE DIRECTORS

The Board present herewith the annual report and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 42 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

The Board does not recommend the payment of a final dividend for the Year (2016: Nil).

BUSINESS REVIEW

The business review of the Group for the Year is set out in the section headed "Management Discussion & Analysis" on pages 5 to 10 of this Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers were less than 5% of the total sales of the Group. Purchases from the five largest suppliers of the Group accounted for approximately 37% (2016: 50%) of the total purchases of the Group for the Year while purchases from the largest supplier accounted for approximately 13% (2016: 24%) of the total purchases of the Group for the Year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has a beneficial interest in the Group's five largest customers and suppliers.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 41 to the consolidated financial statements and in the consolidated statement of changes in equity on page 39 respectively.

The Company had no distributable reserve as at 31 December 2017 (2016: HK$357,931,000).

EMOLUMENT POLICY

The Remuneration Committee is responsible for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

DIRECTORS

The Directors during the Year and up to the date of this Report were:

Executive Directors	Independent non-executive Directors
Mr. Chan Wing Chung	Mr. Ong Chi King
Mr. Wong Kui Shing Danny	Mr. Shum Lok To
	Mr. Tso Ping Cheong Brian

In accordance with bye-law 84(1) of the Company's Bye-laws, Mr. Ong Chi King and Mr. Tso Ping Cheong Brian shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

The Company has received written confirmations of independence from each of the independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian, pursuant to Rule 5.09 of the GEM Listing Rules. As at the date of this report, the Company considers the independent non-executive Directors to be independent.

CHANGES IN INFORMATION OF DIRECTORS

There is no changes in Directors' information subsequent to the date of the third quarterly report for the nine months ended 30 September 2017, as required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACT

Each non-executive Director (including independent non-executive Director) has entered into a service contract with the Company for an initial term of two years and will continue thereafter until terminated in accordance with the terms of the agreement and is subject to retirement by rotation and re-election pursuant to the Bye-Laws.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which would have: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
Shares				
Mr. Chan Wing Chung	Personal	420,000	–	0.01
Mr. Shum Lok To	Personal	3,000,000	–	0.09
Share Options				
Mr. Chan Wing Chung	Personal	32,000,000 (Note 1)	–	0.95
Mr. Wong Kui Shing Danny	Personal	33,000,000 (Note 1)	–	0.98
Mr. Tso Ping Cheong Brian	Personal	2,000,000 (Note 1)	–	0.06

Note:

(1) The interest relates to share options granted on 22 August 2017 by the Company to the Directors. The share options are exercisable at a subscription price of HK$0.34 for each Share during the period from 1 September 2017 to 21 August 2027.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules or to be entered in the register referred to in the SFO.

Save as disclosed above, at no time during the year was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, the following persons/corporations (other than the Directors or chief executive of the Company) had interests or short positions in the Shares and the underlying Shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of director	Capacity of interests	Number of issued ordinary shares held	Number of underlying shares	Approximate percentage to total issued shares at 30 September 2017
Mr. Tse Young Lai ("Mr. Tse") (Note 1)	Beneficial owner	–	200,000,000	5.92%
Best Fine International Limited ("Best Fine") (Note 2)	Beneficial owner	–	1,070,000,000	31.67%
China Huarong Asset Management Co., Limited ("CHAMCL") (Note 2)	Interest of controlled corporation	–	1,070,000,000	31.67%
China Huarong International Holdings Limited ("CHIHL") (Note 2)	Interest of controlled corporation	–	1,070,000,000	31.67%
Right Select International Limited ("Right Select") (Note 2)	Interest of controlled corporation	–	1,070,000,000	31.67%
Fullink Management Limited (Note 3)	Beneficial owner	265,300,000	–	7.85%
Mr. Tsang, Michael Manheem (Note 3)	Interest of controlled corporation	265,300,000	–	7.85%
Diamond Well International Limited (Note 4)	Beneficial owner	172,970,900	–	5.12%
Ms. Zhang Ya Juan (Note 4)	Interest of controlled corporation	172,970,900	–	5.12%

Notes:

1. These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to Mr. Tse pursuant to the conditional placing agreement dated 16 May 2017 (as supplemented on 19 May 2017). For details, please refer to the Company announcements dated 16 May 2017 and 19 May 2017.

2. These interests represented the interests in underlying shares in respect of the convertible bonds and warrants issued by the Company to Best Fine pursuant to the conditional placing agreement dated 16 May 2017 (as supplemented on 19 May 2017). For details, please refer to the Company announcements dated 16 May 2017 and 19 May 2017.

   Best Fine is wholly-owned by Right Select which is wholly-owned by CHIHL which is ultimately owned by CHAMCL. Therefore, under the SFO, Right Select are deemed to be interested in all the underlying Shares held by Best Fine and CHIHL and CHAMCL are deemed to be interested in all the underlying Shares in which Right Select had interest or deemed interest.

3. These shares are held by Fullink Management Limited, which is beneficially owned as to 40% by Mr. Tsang, Michael Manheem.

4. Diamond Well International Limited is wholly and beneficially owned by Ms. Zhang Ya Juan.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any parties (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("the Code"). The Company had made specific enquiry of the Directors and all the Directors confirmed that they had complied with the required standard set out in the Code during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Year are set out in note 39 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its Shares listed on GEM nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities during the Year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

SHARE OPTION SCHEME

The Company has adopted the share option scheme on 21 September 2009 (the "Scheme") under which certain selected classes of participants (including, among others, fulltime employees) may be granted options to subscribe for the shares. The principal terms of the share option scheme are summarised in the paragraph headed "Share Option Scheme" in appendix V to the prospectus of the Company dated 29 September 2009.

During the Year, there was no share option granted, exercised, cancelled or lapsed under the Scheme and no share option remained outstanding at the beginning and at the end of the Year under the Scheme.

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors, there is sufficient public float of the issued Shares as required under the GEM Listing Rules throughout the Year and as at the date of the Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

INTEREST OF THE COMPLIANCE ADVISER

As at 31 December 2017, as confirmed by the Group's compliance adviser of the Year, Lego Corporate Finance Limited (the "Compliance Adviser"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 15 January 2016 (the "Compliance Adviser Agreement"), none of the Compliance Adviser or its directors, employees or associates (as defined under the GEM Listing Rules) had material interest in the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDITOR

The consolidated financial statements for the Year were audited by the independent auditor of the Company, Deloitte Touche Tohmatsu ("Deloitte"), who shall retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution for the re-appointment of Deloitte as the independent auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Wong Kui Shing Danny
Executive Director

Hong Kong, 26 March 2018

Deloitte.

德勤

TO THE SHAREHOLDERS OF LARRY JEWELRY INTERNATIONAL COMPANY LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Larry Jewelry International Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 36 to 116, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Valuation of the goodwill and intangible assets in relation to the business of Tung Fong Hung (as defined in note 7)	
We identified the valuation of the goodwill and intangible assets in relation to the business of Tung Fong Hung as a key audit matter due to significant judgment exercised by the Group's management on the valuation. As at 31 December 2017, the carrying amounts of the aforesaid goodwill and intangible assets are nil and HK$102,719,000 respectively. As detailed in notes 5, 18 and 19, in determining the recoverable amount of the goodwill and intangible assets, estimation of the value in use of the CGUs of Tung Fong Hung (as defined in note 17 to the consolidated financial statements) is required and the valuation is carried out with assistance of an independent professional valuer ("Valuer") engaged by the Group. The value in use calculation is a discounted cash flow model using cash flow projections based on five-year financial budgets, with reference to past performance and expectations for market development, approved by management and such projections require the adoption of certain assumptions such as budgeted sales, gross margin and other related expenses, discount rate, and terminal growth rate.	Our procedures in relation to management's valuation of the goodwill and intangible assets in relation to the business of Tung Fong Hung included: • Understanding the Group's estimation of the recoverable amounts of the CGUs, including the valuation model adopted, key assumptions used and the involvement of the Valuer appointed by the Group; • Assessing the competence, capabilities and objectivity of the Valuer performing the valuation; • Involving our valuation expert to evaluate the appropriateness of the valuation methodology on the discounted cash flow model, the discount rate and terminal growth rate used; and • Evaluating the reasonableness of the budgeted sales, gross margin and other related expenses and terminal growth rate with reference to the historical financial data, financial budgets and available industry and market data.
Valuation of convertible bonds, bonds and warrants ("Instruments")	
We identified the valuation of the Instruments as a key audit matter due to the complexity and significant management judgment involved in estimating the fair values at initial recognition and 31 December 2017. As disclosed in notes 29 and 30 to the consolidated financial statements, the carrying amounts of the convertible bonds, bonds and warrants are HK$542,282,000, HK$73,226,000 and HK$228,466,000 respectively. In determining the fair values of the Instruments, management engaged the Valuer to perform valuation of the Instruments. In estimating the fair values of the Instruments, key inputs used by the Valuer and agreed by management include discount rate, expected volatility and share price.	Our procedures in relation to evaluating the appropriateness of valuation of the Instruments included: • Evaluating the Valuer's competence, capabilities and objectivity; • Involving our valuation expert to assess the appropriateness of the valuation methodology, and assess the reasonableness on the key inputs used by the Valuer and agreed by management, including the discount rate, expected volatility and share price; and • Engaging our valuation expert to evaluate the sensitivity analysis performed by Valuer in relation to the fluctuation on the discount rate, expected volatility and share price of the Company's shares.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tsang Yiu Chung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	6	**434,748**	264,082
Cost of sales		**(282,521)**	(172,380)
Gross profit		**152,227**	91,702
Other income	8	**815**	1,550
Other gains and losses	9	**(15,340)**	(9,628)
Impairment loss recognised in respect of goodwill	18	**(105,258)**	(57,958)
Impairment loss recognised in respect of intangible assets	19	**(70,523)**	(9,257)
Net loss on redemption of convertible bonds	29(a)	**(23,290)**	–
(Loss) gain on fair value changes of convertible bonds	29	**(240,159)**	29,122
Loss on fair value changes of warrants	30	**(190,046)**	–
Selling and distribution expenses		**(148,583)**	(75,179)
Administrative expenses		**(172,046)**	(54,834)
Finance costs	10	**(19,149)**	(102)
Loss before tax		**(831,352)**	(84,584)
Income tax credit	11	**14,783**	777
Loss for the year	12	**(816,569)**	(83,807)
Other comprehensive income (expense) for the year			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**13,448**	(5,515)
Total comprehensive expense for the year		**(803,121)**	(89,322)
Loss for the year attributable to owners of the Company		**(816,569)**	(83,807)
Total comprehensive expense for the year attributable to owners of the Company		**(803,121)**	(89,322)
Loss per share	16		
Basic (HK cents)		**(24.21)**	(5.82)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	17	**67,659**	88,957
Goodwill	18	**–**	105,258
Intangible assets	19	**118,805**	189,328
Deferred tax assets	20	**1,400**	1,317
Deposits	23	**17,758**	14,931
		205,622	399,791
Current assets			
Inventories	21	**325,662**	339,039
Trade receivables	22	**13,685**	10,515
Prepayments, deposits and other receivables	23	**92,828**	22,107
Tax recoverable		**244**	–
Derivative financial instruments	27	**–**	5
Pledged bank deposits	24	**17,912**	15,748
Bank balances and cash	24	**193,392**	65,982
		643,723	453,396
Current liabilities			
Trade payables	25	**80,579**	60,293
Bills payable	25	**–**	1,499
Other payables and accruals	26	**37,131**	25,613
Tax payable		**839**	781
Derivative financial instruments	27	**324**	29
Bank and other borrowings	28	**18,178**	8,117
Convertible bonds	29	**–**	133,412
Bonds	30	**73,226**	–
Warrants	30	**228,466**	–
		438,743	229,744
Net current assets		**204,980**	223,652
Total assets less current liabilities		**410,602**	623,443

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Deferred tax liabilities	20	**19,384**	34,613
Convertible bonds - due after one year		**542,282**	–
		561,666	34,613
Net (liabilities) assets		**(151,064)**	588,830
Capital and reserves			
Share capital	31	**33,784**	33,704
Share premium and reserves		**(184,848)**	555,126
		(151,064)	588,830

The consolidated financial statements on pages 36 to 116 were approved and authorised for issue by the board of directors on 26 March 2018 and are signed on its behalf by:

Chan Wing Chung
DIRECTOR

Wong Kui Shing, Danny
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK$'000	Share premium HK$'000	Capital contribution reserve HK$'000 (Note (i))	Merger reserve HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iii))	Share option reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	33,704	599,171	3,988	(830)	–	–	(14,562)	(324,173)	297,298
Loss for the year	–	–	–	–	–	–	–	(83,807)	(83,807)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	(5,515)	–	(5,515)
Total comprehensive expense for the year	–	–	–	–	–	–	(5,515)	(83,807)	(89,322)
Capital reorganisation (note 31(i))	(30,334)	(599,171)	–	–	629,505	–	–	–	–
Issue of new shares upon rights issue (note 31(ii))	30,334	350,520	–	–	–	–	–	–	380,854
At 31 December 2016	**33,704**	**350,520**	**3,988**	**(830)**	**629,505**	**–**	**(20,077)**	**(407,980)**	**588,830**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(816,569)**	**(816,569)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**13,448**	**–**	**13,448**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**13,448**	**(816,569)**	**(803,121)**
Recognition of equity-settled share-based payments (note 32)	**–**	**–**	**–**	**–**	**–**	**60,507**	**–**	**–**	**60,507**
Issue of new shares upon exercise of share options	**80**	**4,088**	**–**	**–**	**–**	**(1,448)**	**–**	**–**	**2,720**
Reversal of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**(362)**	**–**	**362**	**–**
At 31 December 2017	**33,784**	**354,608**	**3,988**	**(830)**	**629,505**	**58,697**	**(6,629)**	**(1,224,187)**	**(151,064)**

Notes:

(i) The capital contribution reserve represents the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholder.

(ii) The merger reserve mainly represents the sum of difference between the nominal value of the ordinary shares issued (a) by the Company and the share capital of Full Join Limited ("Full Join") and (b) Full Join and the share capital of Larry Jewelry Development Limited acquired through the shares swap pursuant to the reorganisation.

(iii) The contributed surplus represents credit arising from cancellation of share capital and share capital premium pursuant to the capital reorganisation, details of which are set out in note 31(i).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(831,352)**	(84,584)
Adjustments for:			
Depreciation of property, plant and equipment		**22,108**	9,307
Interest income		**(40)**	(31)
Finance costs		**19,149**	102
Provision for onerous contracts		**8,000**	–
Reversal of allowance for inventories		**(4,488)**	–
Allowance for inventories		**–**	10,260
Impairment loss recognised in respect of goodwill		**105,258**	57,958
Impairment loss recognised in respect of intangible assets		**70,523**	9,257
Impairment loss recognised in respect of property, plant and equipment		**15,488**	–
Equity-settled share-based payment expenses		**60,507**	–
Loss on disposal of property, plant and equipment		**41**	43
Net loss on redemption of convertible bonds		**23,290**	–
Loss (gain) on fair value changes of convertible bonds		**240,159**	(29,122)
Loss on fair value changes of warrants		**190,046**	–
Loss on fair value changes of derivative financial instruments		**288**	24
Operating cash flows before movements in working capital		**(81,023)**	(26,786)
Decrease in inventories		**28,710**	12,442
(Increase) decrease in trade receivables		**(2,484)**	4,259
(Increase) decrease in prepayments, deposits and other receivables		**(8,929)**	429
Increase in trade payables		**18,118**	4,776
(Decrease) increase in bills payable		**(1,499)**	1,499
Increase (decrease) in other payables and accruals		**3,150**	(3,037)
Cash used in operations		**(43,957)**	(6,418)
Income tax paid		**(754)**	(943)
NET CASH USED IN OPERATING ACTIVITIES		**(44,711)**	(7,361)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(15,713)**	(7,989)
Proceeds on disposal of property, plant and equipment		**194**	–
Interest received		**40**	31
Placement of pledged bank deposits		**(1,455)**	(8,132)
Withdrawal of pledged bank deposits		**–**	7,946
Acquisition of a subsidiary	33	**–**	(344,090)
NET CASH USED IN INVESTING ACTIVITIES		**(16,934)**	(352,234)
FINANCING ACTIVITIES			
Interest paid		**(2,201)**	(102)
Coupon interest paid		**(17,614)**	–
New borrowings raised		**197,000**	–
Repayment of borrowings		**(186,939)**	(634)
Payment on redemption of convertible bonds		**(150,000)**	–
Proceeds from issue of convertible bonds		**310,000**	–
Proceeds from issue of bonds with warrants		**100,000**	–
Proceeds from exercise of share options		**2,720**	–
Expense attributable to issue of bonds		**(2,771)**	–
Proceeds from issue of shares		**–**	394,336
Expenses on issue of shares		**–**	(13,482)
NET CASH FROM FINANCING ACTIVITIES		**250,195**	380,118
NET INCREASE IN CASH AND CASH EQUIVALENTS		**188,550**	20,523
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**66,830**	47,581
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**2,562**	(1,274)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**257,942**	66,830
Represented by:			
Bank balances and cash		**193,392**	65,982
Cash held by securities broker (included in "prepayments, deposits and other receivables")		**64,550**	848
		257,942	66,830

1. GENERAL

Larry Jewelry International Company Limited ("Larry Jewelry") (the "Company") is a public limited company incorporated in Bermuda and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are design and retailing of jewelry products and sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs ("pharmaceutical and health food products").

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

In the preparation of the consolidated financial statements, the directors of the Company have given due and careful consideration to the future liquidity of the Group by continuously monitoring forecast and actual cash flows in light of the Group's recorded net liabilities of approximately HK$151,064,000 as at 31 December 2017. In the opinion of the directors of the Company, the consolidated financial statements have been prepared on a going concern basis as the directors of the Company had taken into consideration of the following facts and circumstances:

(a) As at 31 December 2017, included in the current liabilities of the Group were warrants of HK$228,466,000 which represented the warrants to the holders to exercise of the subscription rights to subscribe the shares to be issued with a subscription period within twelve months from 31 December 2017. Such derivative financial liabilities shall not result in any cash outflow to the Group eventually;

(b) As at 31 December 2017, the directors of the Company have prepared a working capital forecast for the next twelve months so as to meet its financial obligations fall due; and

(c) As at 31 December 2017, the Group has available unutilised banking facilities of approximately HK$20,500,000;

The directors of the Company believe that the Group has sufficient funds to finance its current working capital requirements and financial obligations in the next twelve months from the end of the reporting period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on consolidated financial statements in the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair values at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instruments: Recognition and Measurements", the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 "Financial Instruments" (Continued)

Classification and measurement

Convertible bonds issued by the Group designated as at FVTPL as disclosed in note 29: these financial liabilities qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This is different from the current accounting treatment under which the entire change in fair value of the financial liabilities is recognised in profit or loss.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment performed by the directors of the Company, the application of the expected credit loss model of HKFRS 9 will not have material impact on the opening accumulated losses of the Group at 1 January 2018.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 16 "Leases" (Continued)

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$74,742,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$24,842,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, "Share-based Payment" leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition-date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU(s)") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at lease annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

When the relevant payments cannot be allocated reliably between the land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed arising on acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories of jewelry products are stated at the lower of cost and net realisable value. Cost is calculated using specific identification basis for gem-set jewellery and weighted average for other inventories. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories of pharmaceutical and health food products are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 37(c).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 7 days to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debts and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade payables, bills payable, other payables, bank and other borrowings and bond are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FTVPL.

A financial liability other than a financial liability held for trading (or contingent consideration that may be paid by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Convertible bonds containing debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

The Group has designated the convertible bonds with debt component, holders' conversion option and issuer's early redemption option as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise. Transaction costs relating to the issuance of the convertible bonds is charged to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Bonds with warrants

At the date of issue, the fair value of the bonds is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The warrants are classified as derivative liabilities and measured at fair value at initial recognition and at subsequent reporting dates.

On the initial recognition of the bonds and warrants, the gross proceeds are allocated to the bonds and warrants taking into account the relative fair values of the bonds and warrants at initial recognition.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the bonds using the effective interest method. Transaction costs allocated to the warrants are recognised as expenses when incurred.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU with key assumptions on budgeted sales, royalty rate, terminal growth rate and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, further impairment loss may arise. As at 31 December 2017, the carrying amount of intangible assets is HK$118,805,000 (net of accumulated impairment losses of HK$116,380,000) (2016: carrying amount of HK$189,328,000 (net of accumulated impairment losses of HK$45,857,000)). Details of the recoverable amount calculation are disclosed in note 19.

Estimated fair values of convertible bonds, bonds and warrants

As described in notes 29 and 30, the directors of the Company use their judgment in selecting an appropriate valuation technique for financial liabilities not quoted in an active market. The fair values of the convertible bonds and warrants are estimated by Black-Scholes Pricing Model with the key inputs of discount rate, share price, dividend yield and expected volatility. The carrying amounts of convertible bonds and warrants as at 31 December 2017 is HK$542,282,000 (2016: HK$133,412,000) and HK$228,466,000 (2016: nil) respectively. The fair value of the bonds at initial recognition is based on the contractual cash flow and applicable discount rate and subsequently measured at amortised cost. The carrying amount of the bonds as at 31 December 2017 is HK$73,226,000. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of the convertible bonds, bonds and warrants.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Estimated allowance for inventories of jewelry products

Inventories of jewelry products are stated at the lower of cost and net realisable value. Net realisable values of inventories jewelry products are estimated by management based on estimated selling prices less any estimated costs to be incurred to completion and disposal with reference to the quality/conditions of the jewelry products, current market conditions and the historical experience in selling jewelry products of similar nature, with the involvement of accredited gemmologist engaged by the Group. The net realisable values may decrease significantly as a result of changes in quality/conditions of jewelry products or market conditions which lead to further allowance. The Group will reassess the estimation at the end of each reporting period. As at 31 December 2017, the carrying amount of inventories of jewelry products is HK$127,991,000 (net of accumulated allowance of HK$10,169,000) (2016: HK$125,216,000 (net of accumulated allowance of HK$14,460,000)).

Estimated allowance for inventories of pharmaceutical and health food products

Inventories of pharmaceutical and health food products are stated at the lower of cost and net realisable value. The directors review the conditions, aging and/or expiry dates of the inventories of pharmaceutical and health food products at the end of each reporting period and write down the obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use to the net realisable values. The directors estimate the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The allowance for obsolete and slow-moving inventories requires the use of judgments and estimates. Where the net realisable value is different from the original estimate, allowance for inventories may arise. As at 31 December 2017, the carrying amount of inventories of pharmaceutical and health food products is HK$197,671,000 (net of accumulated allowance of nil) (2016: HK$213,823,000) (net of accumulated allowance of nil). The directors consider that no allowance for on inventories of pharmaceutical and health food products is required as at 31 December 2017 and 31 December 2016.

6. REVENUE

Revenue represents revenue arising on retailing of jewelry products and sales of pharmaceutical and health food products for the year. An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000	2016 HK$'000
Retailing of jewelry products	**151,328**	162,185
Sales of pharmaceutical and health food products	**283,420**	101,897
	434,748	264,082

7. SEGMENT INFORMATION

Information reported to the directors of the Group, being the chief operating decision maker (''CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on the locations of the operations and types of goods. This is also the basis upon which the Group is arranged and organised. The Group's operating segments under HKFRS 8 "Operating Segments" are operations located in Hong Kong, Singapore, Macau and the People's Republic of China (the "PRC"). The revenue generated by each of the operating segments is derived from retailing of jewelry products and sales of pharmaceutical and health food products. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Following the acquisition of the entire equity interest in Tung Fong Hung Investment Limited ("Tung Fong Hung") in 2016 (details are set out in note 33), the Group is engaged in retailing of jewelry products under the brand name of Larry Jewelry and sales of pharmaceutical and health food products under the brand name of Tung Fong Hung ("東方紅"). The Group's operations are currently organised into five operating and reportable segments.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

1. Retail jewelry in Hong Kong — Retailing of jewelry products in Hong Kong

2. Retail jewelry in Singapore — Retailing of jewelry products in Singapore

3. Sales of pharmaceutical and health food products in Hong Kong — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Hong Kong

4. Sales of pharmaceutical and health food products in Macau — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Macau

5. Sales of pharmaceutical and health food products in the PRC — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in the PRC

7. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

Year ended 31 December 2017

	Retail jewelry in Hong Kong *HK$'000*	Retail jewelry in Singapore *HK$'000*	Sales of pharmaceutical and health food products in Hong Kong *HK$'000*	Sales of pharmaceutical and health food products in Macau *HK$'000*	Sales of pharmaceutical and health food products in the PRC *HK$'000*	Total *HK$'000*
REVENUE						
External sales and segment revenue	32,604	118,724	178,389	40,284	64,747	434,748
RESULTS						
Segment (loss) profit excluding impairment loss recognised in respect of goodwill, intangible assets and property, plant and equipment	(17,195)	3,197	(28,288)	629	(8,326)	(49,983)
Impairment loss recognised in respect of goodwill	–	–	(62,794)	(11,477)	(30,987)	(105,258)
Impairment loss recognised in respect of intangible assets	(3,658)	(13,399)	(13,105)	–	(40,361)	(70,523)
Impairment loss recognised in respect of property, plant and equipment	(985)	(405)	(4,527)	–	(9,571)	(15,488)
Segment loss	(21,838)	(10,607)	(108,714)	(10,848)	(89,245)	(241,252)
Unallocated other income						40
Unallocated corporate expenses						(117,496)
Loss on redemption of convertible bonds						(23,290)
Loss on fair value changes of convertible bonds						(240,159)
Loss on fair value changes of warrants						(190,046)
Finance costs						(19,149)
Loss before tax						(831,352)

7. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

Year ended 31 December 2016

	Retail jewelry in Hong Kong HK$'000	Retail jewelry in Singapore HK$'000	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Total HK$'000
REVENUE						
External sales and segment revenue	37,595	124,590	66,959	14,033	20,905	264,082
RESULTS						
Segment (loss) profit excluding impairment loss recognised in respect of goodwill and intangible assets	(27,758)	1,751	6,338	1,094	(7,105)	(25,680)
Impairment loss recognised in respect of goodwill	–	–	(34,576)	(6,319)	(17,063)	(57,958)
Impairment loss recognised in respect of intangible assets	(5,189)	(4,068)	–	–	–	(9,257)
Segment loss	(32,947)	(2,317)	(28,238)	(5,225)	(24,168)	(92,895)
Unallocated other income						31
Unallocated corporate expenses						(20,740)
Gain on fair value changes of convertible bonds						29,122
Finance costs						(102)
Loss before tax						(84,584)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4.

Segment loss represents the loss from each segment without allocation of unallocated other income (which mainly includes bank interest income of head office), unallocated corporate expenses (which mainly include central administration costs, auditor's remuneration, directors' emoluments, equity-settled share-based payment expenses, legal and professional fee, exchange loss and operating expenses of inactive companies), loss on redemption of convertible bonds, loss (gain) on fair value changes of convertible bonds, loss on fair value changes of warrants and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments.

At 31 December 2017

	Retail jewelry in Hong Kong HK$'000	Retail jewelry in Singapore HK$'000	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Consolidated HK$'000
Segment assets	**50,549**	**148,472**	**494,012**	**40,856**	**84,244**	**818,133**
Bank balances and cash						**12,205**
Unallocated assets						**19,007**
Consolidated assets						**849,345**
Segment liabilities	**5,357**	**21,450**	**104,116**	**3,142**	**36,497**	**170,562**
Unallocated liabilities						**829,847**
Consolidated liabilities						**1,000,409**

At 31 December 2016

	Retail jewelry in Hong Kong HK$'000	Retail jewelry in Singapore HK$'000	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Consolidated HK$'000
Segment assets	97,008	117,639	429,220	103,287	94,658	841,812
Bank balances and cash						9,534
Unallocated assets						1,841
Consolidated assets						853,187
Segment liabilities	11,233	14,278	65,767	2,764	28,397	122,439
Unallocated liabilities						141,918
Consolidated liabilities						264,357

7. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than certain deposits and prepayments, deferred tax assets as well as assets of the headquarters and certain bank balances and cash; and
- all liabilities are allocated to operating and reportable segments other than certain accruals, tax payable, deferred tax liabilities, bank and other borrowings, convertible bonds, bonds, warrants as well as other payables of the headquarters. Bank and other borrowings is classified as unallocated corporate liability because it is managed centrally by the treasury function of the Group.

Other segment information

Year ended 31 December 2017

	Retail jewelry in Hong Kong HK$'000	Retail jewelry in Singapore HK$'000	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment results and segment assets:							
Addition of property, plant and equipment	42	770	7,752	3	7,146	–	15,713
Depreciation of property, plant and equipment	1,613	1,720	15,850	571	2,354	–	22,108
Loss (gain) on disposal of property, plant and equipment	1	2	(47)	5	80	–	41
Operating lease payments in respect of rented premises:							
— minimum lease payments	10,048	10,634	37,221	6,791	2,493	4,201	71,388
— contingent rentals	–	–	859	2,045	–	–	2,904

7. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

Year ended 31 December 2016

	Retail jewelry in Hong Kong HK$'000	Retail jewelry in Singapore HK$'000	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment results and segment assets:							
Addition of property, plant and equipment	317	715	4,083	103	2,771	–	7,989
Depreciation of property, plant and equipment	1,489	1,681	5,348	243	491	55	9,307
Loss on disposal of property, plant and equipment	2	–	41	–	–	–	43
Operating lease payments in respect of rented premises:							
— minimum lease payments	10,070	10,665	13,757	2,381	997	3,616	41,486
— contingent rentals	208	84	312	630	–	–	1,234
Allowance for inventories	7,626	2,634	–	–	–	–	10,260
Property, plant and equipment acquired on acquisition of a subsidiary	–	–	78,933	932	3,436	–	83,301
Intangible assets acquired on acquisition of a subsidiary	–	–	93,175	17,030	45,980	–	156,185
Goodwill arising on acquisition of a subsidiary	–	–	62,794	11,477	30,987	–	105,258

7. SEGMENT INFORMATION (CONTINUED)

Geographic information

The Group's operations are located in Hong Kong, Singapore, Macau and the PRC.

Information about the Group's revenue from external customers is presented based on the location of operations. Information about the Group's non-current assets is presented based on the geographical location of assets.

	Revenue from external customers Year ended		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
			(Note)	(Note)
Hong Kong	**210,993**	104,554	**148,874**	261,988
Singapore	**118,724**	124,590	**13,560**	9,769
Macau	**40,284**	14,033	**17,078**	29,298
The PRC	**64,747**	20,905	**6,952**	82,488
	434,748	264,082	**186,464**	383,543

Note: Non-current assets excluded deferred tax assets and deposits as at 31 December 2017 and 2016.

Information about major customers

No single customer contributed over 10% of the total sales of the Group for both years.

8. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**40**	31
Sundry income	**775**	1,519
	815	1,550

9. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Impairment loss recognised in respect of property, plant and equipment	**15,488**	–
Loss on fair value changes of derivative financial instruments (note 27)	**288**	24
Loss on disposal of property, plant and equipment	**41**	–
Net exchange gain	**(477)**	(656)
Allowance for inventories	**–**	10,260
	15,340	9,628

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank and other borrowings	**2,201**	102
Effective interest expense on bonds (note 30)	**16,948**	–
	19,149	102

11. INCOME TAX CREDIT

	2017 HK$'000	2016 HK$'000
The tax credit comprises:		
Current year:		
Hong Kong Profits Tax	**–**	432
Singapore Corporate Income Tax	**126**	185
Macau Complementary Tax	**466**	310
	592	927
Under(over)provision in prior years:		
Hong Kong Profits Tax	**(22)**	–
Singapore Corporate Income Tax	**(126)**	(248)
Macau Complementary Tax	**21**	–
PRC Enterprise Income Tax ("EIT")	**230**	–
	103	(248)
Deferred tax — current year (note 20)	**(15,325)**	(1,609)
Withholding tax (Note)	**(153)**	153
	(14,783)	(777)

Note: Withholding tax mainly represents withholding tax of 10% on intra-group license income from the PRC.

11. INCOME TAX CREDIT (CONTINUED)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2017 as the Company and its subsidiaries incurred tax losses.

Singapore Corporate Income Tax is calculated at 17% in accordance with the relevant laws and regulations in Singapore for both years.

Macau Complementary Tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for both years.

Under the Enterprise Income Tax Law (the ''EIT Law") of the PRC and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the PRC is 25% for both years.

The tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss before tax	**(831,352)**	(84,584)
Tax at domestic income tax rate applicable to profits of taxable entities in the countries concerned (Note)	**(144,267)**	(13,269)
Tax effect of expenses not deductible for tax purpose	**123,122**	14,901
Tax effect of income not taxable for tax purpose	**(863)**	(11,394)
Tax effect of tax losses not recognised	**7,659**	9,263
Under(over)provision in respect of prior years	**103**	(248)
Withholding tax	**(153)**	153
Others	**(384)**	(183)
Tax credit for the year	**(14,783)**	(777)

Note: As the Group operates in several different tax jurisdictions during the year, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

Details of deferred taxation are set out in note 20.

12. LOSS FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Loss for the year has been arrived at after charging:		
Directors' emoluments, including retirement benefits scheme contributions (note 13)	17,824	3,820
Other staff costs	69,612	33,209
Equity-settled share-based payment expenses, excluding directors	46,930	–
Contributions to retirement benefit scheme, excluding directors	6,718	2,943
Total staff costs	141,084	39,972
Depreciation of property, plant and equipment	22,108	9,307
Loss on disposal of property, plant and equipment	41	43
Auditors' remuneration	4,000	3,650
Cost of inventories recognised as expense	282,521	172,380
Operating lease payments in respect of rented premises		
— minimum lease payments	71,388	41,486
— contingent rentals	2,904	1,234
Provision for onerous contracts (included in "selling and distribution expenses")	8,000	–

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable GEM Listing Rules and the Hong Kong Companies Ordinance, is as follows:

2017

	Hon Kin Wai ("Mr. Hon") HK$'000 (Note (i))	Luk Kee Yan, Kelvin ("Mr. Luk") HK$'000 (Note (ii))	Chan Wing Chung HK$'000	Wong Kui Shing, Danny HK$'000	Total HK$'000
(A) Executive directors:					
Fees	182	218	900	360	1,660
Salaries	1,224	–	–	–	1,224
Performance related bonus (Note (v))	150	–	–	–	150
Equity-settled share-based payment expenses	–	–	5,974	5,974	11,948
Contributions to retirement benefit scheme	15	6	18	18	57
Compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group	428	–	–	–	428
Sub-total	1,999	224	6,892	6,352	15,467

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

2017 (Continued)

	Sezto Wai Ling, Virginia *HK$'000*	Ngai Ki Yee, May *HK$'000* (Note (i))	Total *HK$'000*
(B) Non-executive directors:			
Fees	**240**	**182**	**422**
Contributions to retirement benefit scheme	**12**	**9**	**21**
Sub-total	**252**	**191**	**443**

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

	Ong Chi King *HK$'000*	Shum Lok To *HK$'000*	Tso Ping Cheong, Brian *HK$'000*	Total *HK$'000*
(C) Independent non-executive directors:				
Fees	**90**	**90**	**90**	**270**
Equity-settled share-based payment expenses	**543**	**543**	**543**	**1,629**
Contributions to retirement benefit scheme	**5**	**5**	**5**	**15**
Sub-total	**638**	**638**	**638**	**1,914**

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	**17,824**

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

2016

		Mr. Hon *HK$'000*	Mr. Luk *HK$'000*	Chan Wing Chung *HK$'000* (Note (iii))	Wong Kui Shing, Danny *HK$'000* (Note (iii))	Total *HK$'000*
(A)	Executive directors:					
	Fees	240	720	220	88	1,268
	Salaries	1,578	–	–	–	1,578
	Performance related bonus (Note (v))	150	–	–	–	150
	Contributions to retirement benefit scheme	18	18	4	4	44
	Sub-total	1,986	738	224	92	3,040

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

		Lau Pak Hong *HK$'000* (Note (iv))	Sezto Wai Ling, Virginia *HK$'000* (Note (iii))	Ngai Ki Yee, May *HK$'000*	Total *HK$'000*
(B)	Non-executive directors:				
	Fees	173	59	240	472
	Contributions to retirement benefit scheme	8	3	12	23
	Sub-total	181	62	252	495

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

2016 (Continued)

	Ong Chi King *HK$'000*	Shum Lok To *HK$'000*	Tso Ping Cheong, Brian *HK$'000*	Total *HK$'000*
(C) Independent non-executive directors:				
Fees	90	90	90	270
Contributions to retirement benefit scheme	5	5	5	15
Sub-total	95	95	95	285

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	3,820

Notes:

(i) Resigned on 4 October 2017.

(ii) Resigned on 20 April 2017.

(iii) Appointed on 3 October 2016.

(iv) Resigned on 20 September 2016.

(v) The performance related bonus are determined by reference to individual performance of the directors and approved by the Remuneration Committee.

Mr. Luk resigned as the Chairman of the Company on 3 October 2016. Ms. Szeto was appointed as the Chairman of the Company and non-executive directors on 3 October 2016. Mr. Hon is the Chief Executive Officer ("CEO") of the Company and resigned on 4 October 2017. The company has not appointed CEO thereafter and the roles and function of CEO have been performed by the above executive directors of the Company collectively. Their emoluments disclosed above include those for services rendered by them in such roles.

No directors waived any emoluments for the years ended 31 December 2017 and 2016.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the years ended 31 December 2017 and 2016, except for mentioned above, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2016: one director), details of whose remuneration are set out in note 13 above. Details of the remuneration for the year of the remaining three (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**420**	2,972
Performance related bonus	**–**	267
Equity-settled share-based payment expenses	**17,924**	–
Contributions to retirement benefits scheme	**–**	180
	18,344	3,419

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following band is as follows:

	Number of employees	
	2017	2016
Nil–HK$1,000,000	**–**	4
HK$5,500,001–HK$6,000,000	**2**	–
HK$6,000,001–HK$6,500,000	**1**	–
	3	4

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

No dividend was paid, declared or proposed for ordinary shareholders of the Company during 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

16. LOSS PER SHARE

The calculation of the basic loss per share (2016: basis loss per share) attributable to owners of the Company is based on the following information:

	2017 ***HK$'000***	2016 *HK$'000*
Loss		
Loss for the purpose of basic loss per share represented by loss for the year attributable to owners of the Company	**816,569**	83,807

	Number of ordinary shares	
	2017 ***'000***	2016 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,372,907**	1,441,172

The computation of diluted loss per share for the year does not assume the conversion of the Company's outstanding convertible bonds, warrants or share option (2016: outstanding convertible bonds) since their exercise would result in a decrease in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Total HK$'000
COST								
At 1 January 2016	–	7,660	–	5,200	–	–	–	12,860
Additions	–	3,825	–	761	–	3,049	354	7,989
Acquired on acquisition of subsidiaries	39,024	20,925	327	2,417	1,125	17,565	1,918	83,301
Disposals/write-offs	–	–	–	(18)	–	(47)	(32)	(97)
Transfer	–	–	(321)	–	–	321	–	–
Exchange adjustments	–	(85)	(6)	(118)	–	(156)	(15)	(380)
At 31 December 2016	**39,024**	**32,325**	**–**	**8,242**	**1,125**	**20,732**	**2,225**	**103,673**
Additions	**–**	**7,197**	**–**	**1,163**	**–**	**7,347**	**6**	**15,713**
Disposals/write-offs	**–**	**(2,509)**	**–**	**(710)**	**(20)**	**(50)**	**(25)**	**(3,314)**
Exchange adjustments	**–**	**315**	**–**	**439**	**1**	**646**	**34**	**1,435**
At 31 December 2017	**39,024**	**37,328**	**–**	**9,134**	**1,106**	**28,675**	**2,240**	**117,507**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	–	3,163	–	2,450	–	–	–	5,613
Provided for the year	452	4,871	–	1,479	256	1,883	366	9,307
Eliminated on disposals/write-offs	–	–	–	(16)	–	(6)	(32)	(54)
Exchange adjustments	–	(54)	–	(87)	–	(8)	(1)	(150)
At 31 December 2016	**452**	**7,980**	**–**	**3,826**	**256**	**1,869**	**333**	**14,716**
Provided for the year	**1,265**	**10,803**	**–**	**2,155**	**501**	**6,324**	**1,060**	**22,108**
Eliminated on disposals/write-offs	**–**	**(2,382)**	**–**	**(630)**	**(20)**	**(40)**	**(7)**	**(3,079)**
Impairment loss recognised in profit or loss	**–**	**3,409**	**–**	**1,234**	**52**	**10,432**	**361**	**15,488**
Exchange adjustments	**–**	**197**	**–**	**315**	**1**	**96**	**6**	**615**
At 31 December 2017	**1,717**	**20,007**	**–**	**6,900**	**790**	**18,681**	**1,753**	**49,848**
CARRYING VALUES								
At 31 December 2017	**37,307**	**17,321**	**–**	**2,234**	**316**	**9,994**	**487**	**67,659**
At 31 December 2016	38,572	24,345	–	4,416	869	18,863	1,892	88,957

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	Over the shorter of the term of the relevant lease of the relevant land on which building is erected, or 5%
Leasehold improvements	20% or the term of the lease, if shorter
Furniture and fixtures	20%–25%
Motor vehicles	20%–50%
Plant and machinery	20%–30%
Computer equipment	30%–50%

For impairment assessment, the Group's certain property, plant and equipment are allocated to groups of CGUs comprising (i) retailing of jewelry products in Hong Kong and Singapore ("CGUs of Jewelry"), and, (ii) sales of pharmaceutical and health food products in Hong Kong, Macau and the PRC ("CGUs of Tung Fong Hung"). Details of the impairment assessment on the recoverable amounts of the CGUs of Jewelry and CGUs of Tung Fong Hung, to which the property, plant and equipment are allocated to, are set out in notes 19(a) and 18(b) respectively.

18. GOODWILL

The amount of goodwill recognised in the consolidated statement of financial position, arising from the acquisitions of subsidiaries, is as follows:

	Goodwill of Larry Jewelry HK$'000	Goodwill of Tung Fong Hung HK$'000	Total HK$'000
AT COST			
At 1 January 2016	48,818	–	48,818
Arising on acquisition of a subsidiary (note 33)	–	163,216	163,216
At 31 December 2016 and 31 December 2017	48,818	163,216	212,034
IMPAIRMENT			
At 1 January 2016	48,818	–	48,818
Impairment loss recognised	–	57,958	57,958
At 31 December 2016	48,818	57,958	106,776
Impairment loss recognised	–	105,258	105,258
At 31 December 2017	48,818	163,216	212,034
CARRYING VALUES			
At 31 December 2017	–	–	–
At 31 December 2016	–	105,258	105,258

Goodwill is allocated to the groups of CGUs identified according to operating segment.

(a) CGUs of Jewelry

Goodwill of retailing of jewelry products in Hong Kong and Singapore arose from the acquisition of Sharp Wonder Holdings Limited and its subsidiaries (the "Sharp Wonder Group") in 2011.

Subsequent to the acquisition of the Sharp Wonder Group in 2011, the revenue and net profit generated from retailing of jewelry products in Hong Kong and Singapore dropped, which was resulted from unstable global economic environment, keen competition of the market and drop in demand for luxury jewelry products from the overseas customers. As a result, goodwill was fully impaired in prior years.

(b) CGUs of Tung Fong Hung

The entire net carrying amount of goodwill as at 31 December 2017 has been allocated to the CGUs of Tung Fong Hung.

Goodwill of HK$163,216,000 arose from the acquisition of Tung Fong Hung and was recognised at the date of acquisition and an impairment on the goodwill on acquisition of Tung Fong Hung amounted to HK$57,958,000 was made, details of which are set out in note 33(iii).

18. GOODWILL (CONTINUED)

(b) CGUs of Tung Fong Hung (Continued)

At initial recognition, goodwill is allocated to "sales of pharmaceutical and health food products in Hong Kong, Macau and the PRC" segments in proportion to the carrying amount of brand name of Tung Fong Hung in Hong Kong, Macau and the PRC, respectively.

	Sales of pharmaceutical and health food products in Hong Kong HK$'000	Sales of pharmaceutical and health food products in Macau HK$'000	Sales of pharmaceutical and health food products in the PRC HK$'000	Total HK$'000
At 1 January 2016	–	–	–	–
Arising on acquisition of a subsidiary	97,370	17,796	48,050	163,216
Impairment loss recognised (note 33)	(34,576)	(6,319)	(17,063)	(57,958)
At 31 December 2016	62,794	11,477	30,987	105,258
Impairment loss recognised in the year (note 33)	(62,794)	(11,477)	(30,987)	(105,258)
At 31 December 2017	–	–	–	–

For the purpose of impairment assessment, goodwill, brand name (note 19) and property, plant and equipment of Tung Fong Hung are allocated to the CGUs of Tung Fong Hung.

During the year ended 31 December 2017, management conducted an impairment review on the related assets of Tung Fong Hung as described below.

The recoverable amount of the CGUs of Tung Fong Hung as of 31 December 2017 was based on its value in use and was determined with assistance of GW Financial Advisory Services Limited (2016: Ascent Partners Valuation Service Limited), an independent professional qualified valuer not connected to the Group. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period, using discount rates of 13.5% (2016: 14.9%) for Hong Kong, 13.2% for Macau (2016: 14.9%) and 21.0% (2016: 14.9%) for the PRC. Cash flows beyond the five-year period were extrapolated using a 3.0% (2016: 2.8%) growth rate in considering the economic conditions of the market.

The estimated growth rates used are comparable to the growth rate for the industry. Other key assumptions for the value in use calculations related to the estimation of cash inflows which include budgeted sales, gross margin and other related expenses. Such estimation is based on management's expectations for the retail business including unstable global economic environment, keen competition of market and drop in demand from overseas customers for pharmaceutical and health food products. During the year ended 31 December 2017, the retail market continues to be weak which resulted in loss making position of most of the retail stores and management has adjusted the cash flow projection downward.

The recoverable amount of the CGUs of Tung Fong Hung is estimated to be less than the carrying amount by HK$172,822,000. In allocating the impairment loss, an impairment loss of HK$105,258,000 (2016: HK$57,958,000) is first allocated to goodwill and recognised in the consolidated statement of profit or loss and other comprehensive income. The remaining impairment loss is then allocated to other assets (representing intangible assets and property, plant and equipment) on a pro-rata basis based on the carrying amount of each asset in respective segment.

19. INTANGIBLE ASSETS

	Brand name of Larry Jewelry HK$'000	Brand name of Tung Fong Hung HK$'000	Total HK$'000
COST			
At 1 January 2016	79,000	–	79,000
Acquired on acquisition of a subsidiary (note 33)	–	156,185	156,185
At 31 December 2016 and 31 December 2017	79,000	156,185	235,185
IMPAIRMENT			
At 1 January 2016	36,600	–	36,600
Impairment loss recognised in the year	9,257	–	9,257
At 31 December 2016	45,857	–	45,857
Impairment loss recognised in the year	17,057	53,466	70,523
At 31 December 2017	62,914	53,466	116,380
CARRYING VALUES			
At 31 December 2017	16,086	102,719	118,805
At 31 December 2016	33,143	156,185	189,328

(a) Brand name of Larry Jewelry

The intangible assets were recognised as part of the acquisition of the Sharp Wonder Group and were recognised at their fair value at the date of acquisition.

The brand name of Larry Jewelry has no legal life. The directors of the Company are of the opinion that the Group has the ability to use the brand name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group.

As a result, the brand name is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

19. INTANGIBLE ASSETS (CONTINUED)

(a) Brand name of Larry Jewelry (Continued)

For impairment assessment, the brand name of HK$7,111,000 and HK$26,032,000 and property, plant and equipment of HK$787,000 and HK$1,913,000 are allocated to CGUs of Jewelry for Hong Kong and Singapore respectively. The recoverable amount is based on its value in use and determined with the assistance of GW Financial Advisory Services Limited (2016: Ascent Partners Valuation Service Limited), an independent professional qualified valuer not connected to the Group. The calculation uses cash flow forecast based on the most recent financial budget for the next five years in considering the economic condition of the market approved by management, using discount rates of 14.6% (2016: 14.9%) for Hong Kong and 14.5% (2016: 14.1%) for Singapore. Cash flows after the five-year period were extrapolated using growth rates of 1.0% (2016: 3.0%) for both Hong Kong and Singapore.

The estimated growth rates used are comparable to the growth rate for the industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows which include budgeted sales. Such estimation is based on the unit's past performance and management's expectations for the market development including the fluctuation in jewelry business in the current economic environment, which is adversely affected by the deteriorating market sentiment as a result of unstable economic conditions, changes in government policy for tourism and downturn of the retail market both in Hong Kong and Singapore in 2017. Management of the Company therefore was of the opinion that their previous expectation as at 31 December 2016 on the budgeted sales could not be met and the actual sales arising in both Hong Kong and Singapore have fallen below expectation, and therefore management has revised downward the cash flow forecast.

On this basis, management assessed that the carrying amounts of the intangible assets and property, plant and equipment were higher than the recoverable amounts of the related CGUs. The impairment loss is allocated to the intangible assets and property, plant and equipment on a pro-rata basis based on the carrying amount of each asset in the CGU. Impairment loss in respect of intangible assets and property, plant and equipment of HK$17,057,000 (2016: HK$9,257,000) and HK$1,390,000 (2016: nil) respectively was recognised in profit or loss during the year.

(b) Brand name of Tung Fong Hung

The intangible assets were purchased as part of the acquisition of Tung Fong Hung and were recognised at their fair value at the date of acquisition, details of which are set out in note 33. The intangible asset comprises initial recognition of brand name of Tung Fong Hung amounting to HK$156,185,000 (comprising of HK$93,175,000, HK$17,030,000 and HK$45,980,000 for Hong Kong, Macau and the PRC respectively).

The brand name has no legal life. The directors of the Company are of the opinion that the Group has the ability to use the brand name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group.

As a result, the brand name is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

Impairment loss of HK$53,466,000 (comprising of HK$13,105,000, nil and HK$40,361,000 for Hong Kong, Macau and the PRC respectively) (2016: nil) was made in the year.

Details of the impairment assessment on the recoverable amount of the CGUs of Tung Fong Hung, to which the brand name is allocated to, are set out in note 18(b).

20. DEFERRED TAX (ASSETS) LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years.

	Fair value adjustments on business combinations HK$'000	Accelerated tax depreciation HK$'000	Depreciation in excess of related tax depreciation allowance HK$'000	Loss available for offset against future taxable profit HK$'000	Total HK$'000
At 1 January 2016	7,066	117	–	–	7,183
Credit to profit or loss	(1,569)	96	(136)	–	(1,609)
Deferred tax liabilities arising from fair value adjustment on assets from acquisition of a subsidiary (note 33)	28,913	252	(1,181)	(252)	27,732
Exchange differences	–	(10)	–	–	(10)
At 31 December 2016	34,410	455	(1,317)	(252)	33,296
Credit to profit or loss	(15,095)	(147)	(83)	–	(15,325)
Exchange differences	–	13	–	–	13
At 31 December 2017	19,315	321	(1,400)	(252)	17,984

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 ***HK$'000***	2016 *HK$'000*
Deferred tax assets	**(1,400)**	(1,317)
Deferred tax liabilities	**19,384**	34,613
	17,984	33,296

At the end of the reporting period, the Group has unused tax losses of approximately HK$297,848,000 (31 December 2016: HK$252,646,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,527,000 (31 December 2016: HK$1,527,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$296,321,000 (31 December 2016: HK$251,119,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$644,000, HK$917,000, HK$562,000, HK$14,714,000 and HK$4,114,000 that will expire in 2018, 2019, 2020, 2021 and 2022 respectively. Other losses may be carried forward indefinitely.

21. INVENTORIES

	2017 HK$'000	2016 HK$'000
Jewelry products	**127,991**	125,216
Pharmaceutical and health food products	**197,671**	213,823
	325,662	339,039

During the year, certain inventories allowance for which has been made previously were sold. As a result, a reversal of allowance for inventories of HK$4,488,000 (2016: nil) has been recognised and included in cost of sales in the current year.

22. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**13,685**	10,515

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within 7 to 14 days. Receivables from retail sales relate to sales campaigns jointly organised with shopping malls, which are collected from the respective shopping malls within 30 to 90 days.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
1–30 days	**9,984**	9,885
31–60 days	**516**	260
61–90 days	**713**	245
91–180 days	**1,434**	35
181–365 days	**1,038**	90
	13,685	10,515

Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES (CONTINUED)

At 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$2,979,000 (31 December 2016: HK$369,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group has not provided for impairment loss as the Group considers that the default risk is low after considering the creditworthiness and repayment history of the debtors and settlement after the end of each reporting period. No collateral is held over these receivables. Trade receivables which are neither overdue nor impaired are of good quality.

Ageing of trade receivables which are past due but not impaired based on due date

	2017 HK$'000	2016 HK$'000
Overdue by:		
1–30 days	**725**	245
31–90 days	**2,212**	124
More than 90 days	**42**	–
Total	**2,979**	369

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Goods and service tax ("GST") input tax in Singapore	**308**	289
Rental and utilities deposits	**24,842**	28,140
Prepayments to suppliers and others	**19,761**	6,173
Other tax recoverable	**89**	123
Other receivables	**1,036**	1,465
Cash held by securities broker	**64,550**	848
	110,586	37,038
Less: Non-current portion	**17,758**	14,931
	92,828	22,107

The non-current portion mainly represents the rental and other utilities deposits paid for the lease of the rented premises (including office, warehouses and retail shops). The amount is expected to be refunded after twelve months at the end of each of the reporting period, and is therefore classified as non-current assets.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits and bank balances carry interest at market rates which range from 0.01% to 0.91% (2016: 0.01% to 0.31%) per annum. Certain bank deposits are pledged to the banks as security for guarantee of the settlement in favour of the certain suppliers of the Group and various credit facilities which will expire within a year of granting the facilities; accordingly, they are classified as current assets.

The Group's pledged bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2017 HK$'000	2016 HK$'000
United States Dollar ("USD")	**8,457**	7,748

25. TRADE PAYABLES/BILLS PAYABLE

	2017 HK$'000	2016 HK$'000
Trade payables	**80,579**	60,293
Bills payable	**–**	1,499
	80,579	61,792

The credit period on trade and bills payables ranged from 30 to 90 days.

The following is an aged analysis of trade payables, based on the invoice date, at the end of reporting period.

	2017 HK$'000	2016 HK$'000
0–30 days	**26,238**	16,474
31–60 days	**26,714**	13,415
61–90 days	**5,692**	6,591
91–180 days	**12,729**	7,557
181–365 days	**9,206**	16,256
	80,579	60,293

The bills payable is aged within 60 days.

26. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
GST output tax in Singapore	**2,639**	2,482
Advance payment received from customers	**2,698**	2,334
Accrued expenses	**19,614**	15,475
Accrued coupon interest	**3,254**	3,758
Provision for onerous contracts	**8,000**	–
Value-added tax and other tax payables	**51**	506
Other payables	**875**	1,058
	37,131	25,613

27. DERIVATIVE FINANCIAL INSTRUMENTS

Major terms of the outstanding foreign currency forward contracts of the Group are as follows:

Notional amount	Maturity	Exchange rates
At 31 December 2017		
6 contracts to buy USD1,451,298 in total	16 January 2018 to 27 February 2018	USD1:Singapore Dollar ("SGD") 1.3680 to 1.3860
2 contracts to buy HK$124,017 in total	29 January 2018 to 21 February 2018	HK$1:SGD0.1749 to 0.1753
At 31 December 2016		
6 contracts to buy USD910,519 in total	23 January 2017 to 3 March 2017	USD1:SGD1.4415 to 1.4690

28. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank borrowing (unsecured)	**6,178**	8,117
Other borrowing (unsecured)	**12,000**	–
	18,178	8,117
The carrying amounts of the above borrowings are repayable*:		
Within one year	**13,998**	1,939
Within a period of more than one year but not exceeding two years	**2,059**	1,998
Within a period of more than two year but not exceeding five years	**2,121**	4,180
	18,178	8,117
Less: Amount containing a repayable on demand clause and therefore shown under current liabilities	**(18,178)**	(8,117)
Amount shown under non-current liabilities	**–**	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Bank borrowing is repayable by sixty equal monthly instalments and interest bearing at Hong Kong Dollar Best Lending Rate less 2% per annum, for which effective interest rate is 3.0% per annum. Such borrowing is unsecured and guaranteed by subsidiaries of the Company.

In addition, the Group also pledged bank deposit of HK$8,000,000 (note 24) to the bank in order to obtain various other short-term facilities totaling of HK$20,500,000. As at 31 December 2017, such bank facilities had not yet been utilised. Such bank facilities are secured and guaranteed by the subsidiaries of the Company.

Other borrowing is repayable in full on 6 November 2018 and bears interest at fixed rate of 12.5% per annum.

29. CONVERTIBLE BONDS

(a) On 22 August 2016, the Company issued convertible bonds ("Convertible Bonds I") with principal amount of HK$150,000,000 as a part of the consideration for acquisition of Tung Fong Hung (see details in note 33). Pursuant to the terms, Convertible Bonds I are convertible for the whole or part of the principal amounts at any time by the holder after the date of the issuance and mandatorily convertible upon the maturity date of Convertible Bonds I for the outstanding principal amount, and the Company has an option to early redeem Convertible Bonds I at par plus accrued outstanding interest. Convertible Bonds I bear coupon interest at 7% per annum, payable annually in arrears, and with maturity period of three years.

The initial conversion price is of HK$0.15 per conversion share, which is subject to certain adjustments prescribed in the convertible bonds agreement. Details of the terms are set out in the circular dated 30 June 2016 issued by the Company.

The conversion options are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares as they contain the feature designed to protect the holders of convertible debt from adverse movements in share price at the expense of the existing ordinary shareholders. The Company has designated the debt component, and derivative components of holder's conversion option and issuer's early redemption option as financial liabilities at FVTPL and initially recognised Convertible Bonds I at fair value. The fair value of Convertible Bonds I is determined by aggregating the fair value of (i) present value of contractual future cash flows, represented by the 7% coupon payments per annum, discounted at the effective interest rate, taking into account the credit standing of the Company and the remaining time to maturity; and (ii) conversion option. The value of the issuer's early redemption option is considered insignificant. The valuation of Convertible Bonds I is determined with the assistance of Ascent Partners Valuation Service Limited, an independent qualified professional valuer not connected to the Group.

In subsequent periods, such Convertible Bonds I are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss.

29. CONVERTIBLE BONDS (CONTINUED)

(a) (Continued)

Convertible Bonds I is measured at fair value using the Black-Scholes Pricing Model at initial recognition and at the end of each subsequent reporting period. The inputs into the model as at date of issuance and 31 December 2016 are as follows:

	31 December 2016	22 August 2016 (Date of issuance)
Share price	HK$0.108	HK$0.143
Conversion price	HK$0.15	HK$0.15
Expected volatility	94.99%	92.36%
Dividend yield	0%	0%
Option life	2.64 years	3.00 years
Discount rates	14.56%	16.84%

On 21 August 2017, the Company has exercised the early redemption option on Convertible Bonds I. Upon the redemption, all the Convertible Bonds I have been fully redeemed and cancelled.

The movement of Convertible Bonds I is set out below:

	HK$'000
At 1 January 2016	–
Issuance of convertible bonds	166,292
Accrued coupon interest	(3,758)
Gain arising on changes in fair value	(29,122)
At 31 December 2017	133,412
Accrued coupon interest	(6,702)
Redemption	(150,000)
Loss on redemption	23,290
At 31 December 2017	–

(b) On 31 July 2017, the Company issued convertible bonds ("Convertible Bonds II") with principal amount of HK$100,000,000 to an independent third party. Pursuant to the terms, Convertible Bonds II are convertible for the whole or part of the principal amounts at any time by the holder after the date of the issuance and mandatorily convertible upon the maturity date of Convertible Bonds II for the outstanding principal amount, and the Company has an option to early redeem Convertible Bonds II at par plus accrued outstanding coupon interest at any time before its maturity date. Convertible Bonds II bear coupon interest at 6.5% per annum, payable quarterly in arrears, and with maturity period of two years.

The initial conversion price is of HK$0.25 per conversion share, which is subject to certain adjustments prescribed in the convertible bonds agreement. Details of the terms are set out in the circular dated 10 July 2017 issued by the Company.

29. CONVERTIBLE BONDS (CONTINUED)

(b) (Continued)

The conversion options are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares as they contain the feature designed to protect the holders of convertible debt from adverse movements in share price at the expense of the existing ordinary shareholders. The Company has designated the debt component and derivative components of holder's conversion option and issuer's early redemption option as financial liabilities at FVTPL and initially recognised Convertible Bonds II at fair value. The fair value of Convertible Bonds II is determined by aggregating the fair value of (i) present value of contractual future cash flows, represented by the 6.5% coupon payments per annum, discounted at the effective interest rate, taking into account the credit standing of the Company and the remaining time to maturity; and (ii) conversion options and issuer's early redemption option. The valuation of Convertible Bonds II is determined with the assistance of GW Financial Advisory Services Limited, an independent qualified professional valuer not connected to the Group.

In subsequent periods, such Convertible Bonds II are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss.

Convertible Bonds II is measured at fair value using the Black-Scholes Pricing Model at initial recognition and at the end of each subsequent reporting period. The inputs into the model as at date of issuance and 31 December 2017 are as follows:

	31 December 2017	31 July 2017 (Date of issuance)
Share price	**HK$0.49**	HK$0.228
Conversion price	**HK$0.25**	HK$0.25
Risk-free rate	**1.29%**	0.82%
Expected volatility	**47.99%**	56.18%
Dividend yield	**0%**	0%
Option life	**1.58 years**	2 years
Discount rate	**14.60%**	14.45%

(c) On 4 September 2017, the Company issued convertible bonds ("Convertible Bonds III") with principal amount of HK$210,000,000 to independent third parties. Pursuant to the terms, Convertible Bonds III are convertible for the whole or part of the principal amounts at any time by the holder after the date of the issuance and mandatorily convertible upon the maturity date of the Convertible Bonds III for the outstanding principal amount, and the Company has an option to early redeem the Convertible Bonds III at par plus accrued outstanding coupon interest at any time before its maturity date. Convertible Bonds III bear coupon interest at 7.5% per annum, payable quarterly in arrears, and with maturity period of two years.

29. CONVERTIBLE BONDS (CONTINUED)

(c) (Continued)

The initial conversion price is of HK$0.3 per conversion share, which is subject to certain adjustments prescribed in the convertible bonds agreement. Details of the terms are set out in the circular dated 10 July 2017 issued by the Company.

The conversion options are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares as they contain the feature designed to protect the holders of convertible debt from adverse movements in share price at the expense of the existing ordinary shareholders. The Company has designated the debt component and derivative components of holder's conversion option and issuer's early redemption option as financial liabilities at FVTPL and initially recognised Convertible Bonds III at fair value. The fair value of Convertible Bonds III is determined by aggregating the fair value of (i) present value of contractual future cash flows, represented by the 7.5% coupon payments per annum, discounted at the effective interest rate, taking into account the credit standing of the Company and the remaining time to maturity; and (ii) conversion options and issuer's early redemption option. The valuation of Convertible Bonds III is determined with the assistance of GW Financial Advisory Services Limited, an independent qualified professional value not connect to the Group.

In subsequent periods, such Convertible Bonds III are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss.

Convertible Bonds III is measured at fair value using the Black-Scholes Pricing Model at initial recognition and at the end of each subsequent reporting period. The inputs into the model as at date of issuance and 31 December 2017 are as follows:

	31 December 2017	4 September 2017 (Date of issuance)
Share price	**HK$0.49**	HK$0.67
Conversion price	**HK$0.3**	HK$0.3
Risk-free rate	**1.31%**	0.78%
Expected volatility	**49.31%**	53.61%
Dividend yield	**0%**	0%
Option life	**1.68 years**	2 years
Discount rate	**14.64%**	14.84%

29. CONVERTIBLE BONDS (CONTINUED)

(c) (Continued)

The movement of Convertible Bonds II and III for the year is set out as below:

	Convertible Bonds II HK$'000	Convertible Bonds III HK$'000	Total HK$'000
At 1 January 2017	–	–	–
Issuance of convertible bonds	100,000	210,000	310,000
Coupon interest paid/payable	(2,742)	(5,135)	(7,877)
Loss arising on changes in fair value	99,828	140,331	240,159
At 31 December 2017	197,086	345,196	542,282
Analysed as:			
Non-current liabilities	197,086	345,196	542,282

Subsequent to the end of the reporting period, on 19 and 26 January 2018, Convertible Bonds III with principal amounts of HK$12,000,000 and HK$60,000,000 were converted into 40,000,000 and 200,000,000 ordinary shares of HK$0.01 each at the conversion price of HK$0.3 per share respectively.

30. BONDS/WARRANTS

On 31 July 2017, the Company issued one-year bonds in an aggregate principal amount of HK$100,000,000 (the "Bonds") together with detachable warrants with subscription rights of HK$100,500,000 (the "Warrants") to an independent third party. Upon full exercise of the subscription rights attaching to the Warrants, a total of 670,000,000 Warrant Shares would be issued.

The Bonds bear coupon interest at 6.0% per annum, payable quarterly in arrears, and with maturity period of one year. In the terms of the Bonds, the Company has an option to early redeem the Bonds at par plus accrued outstanding coupon interest, at any time before the maturity date of the Bonds.

The Warrants' subscription price is initially HK$0.15 per warrant share, subject to adjustments in accordance with the instrument creating the Warrants, and the subscription period is one year from the date of its issuance.

The principal terms of the Bonds and Warrants were disclosed in a circular issued by the Company dated 10 July 2017.

The Bonds are classified as financial liabilities at amortised cost.

The subscription options of the Warrants are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares as they contain the feature designed to protect the warrantholders from adverse movements in share price at the expense of the existing ordinary shareholders. Therefore, the Warrants are classified as derivative liabilities and measured at fair value at initial recognition and at subsequent reporting dates.

30. BONDS/WARRANTS (CONTINUED)

On the initial recognition of the Bonds and Warrants, the aggregate consideration of HK$100,000,000 is allocated to the Bonds and Warrants, taking into account the fair values of the Bonds and the Warrants. At initial recognition, HK$61,580,000 is allocated the Bonds and HK$38,420,000 is allocated to the Warrants. Transaction costs of HK$2,771,000 and HK$1,729,000, respectively, are allocated to the Bonds and Warrants. Transaction costs allocated to the Bonds are recognised in the carrying amount of the Bonds and amortised over the period of the Bonds using the effective interest method whereas transaction costs allocated to the Warrants are changed to profit or loss immediately.

The warrants issued by the Company are measured at fair value at initial recognition. At the end of each reporting date, the warrants are measured at fair value, with changes in fair value being recognised in profit or loss. The movements of the carrying amount of the Bonds and fair value of the derivative liabilities represented by the Warrants during the year are as below:

	Bonds *HK$'000*	Warrants *HK$'000*	Total *HK$'000*
At 1 January 2017	–	–	–
Issuance of Bonds and Warrants	**61,580**	38,420	100,000
Transaction cost	**(2,771)**	–	(2,771)
Coupon interest paid/payable	**(2,531)**	–	(2,531)
Effective interest expense	**16,948**	–	16,948
Loss arising on changes in fair value	–	190,046	190,046
At 31 December 2017	**73,226**	228,466	301,692

The Company has engaged GW Financial Advisory Services Limited, an independent qualified professional valuer not connected to the Group, to determine the fair values of the Warrants as at date of issuance and 31 December 2017. The fair values of Warrants as at date of issuance and 31 December 2017 are determined based on Black-Scholes option pricing method. Key inputs used in arriving at the fair values are as follows:

	31 December 2017	31 July 2017 (Date of issuance)
Share price	**HK$0.49**	HK$0.228
Exercise price	**HK$0.15**	HK$0.15
Risk free rate	**1.13%**	0.58%
Expected volatility	**45.85%**	46.11%
Dividend yield	**0%**	0%
Warrant life	**0.58 year**	1 year

The above risk-free rates were determined with reference to Hong Kong Government BVAL Curve as of 31 July 2017 and 31 December 2017, respectively. The expected volatility was determined based on the historical volatilities of a set of comparable companies' share price for the past three months.

The fair value of warrants as at 31 December 2017 is categorised as Level 3 under the fair value hierarchy set out in HKFRS 13 "Fair Value Measurement". There were no transfers in or out of Level 3 during both years.

31. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 2017	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2016	3,370,393,075	33,704
Capital reorganisation (Note (i))	(3,033,353,768)	(30,334)
	337,039,307	3,370
Issue of shares upon rights issue (Note (ii))	3,033,353,763	30,334
At 31 December 2016	3,370,393,070	33,704
Issue of shares upon exercise of share options	8,000,000	80
At 31 December 2017	3,378,393,070	33,784

Notes:

(i) Pursuant to a special resolution passed in a special general meeting of the Company, the Company effected a capital reorganisation (the "Capital Reorganisation 2016") on 25 July 2016 (i) every ten issued and unissued shares of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of HK$0.10 each; (ii) the total number of consolidated shares in the issued share capital of the Company immediately following the share consolidation will be rounded down to a whole number and any fraction in the issued share capital of the Company arising from the share consolidation will be cancelled; (iii) the issued share capital of the Company be reduced by cancellation of HK$0.09 of the paid-up capital on each issued consolidated shares such that the par value of each issued consolidated shares be reduced from HK$0.10 to HK$0.01; (iv) each of the authorised but unissued consolidated shares of HK$0.10 each will be subdivided into ten new shares of HK$0.01 each; (v) the entire amount standing to the credit of the share premium account of the Company be cancelled; and (vi) the credit arising from the cancellation of any fraction in the issued share capital of the Company arising from share consolidation, capital reduction and share premium cancellation will be transferred to the contributed surplus account; (vii) the amount standing to the credit of the contributed surplus account will be applied to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the bye-laws of the Company and all applicable laws and rules (including the GEM Listing Rules).

Details of the Capital Reorganisation 2016 were set out in the circular of the Company dated 30 June 2016.

(ii) An ordinary resolution was passed in a special general meeting of the Company on 25 July 2016, which approved a rights issue on the basis of nine rights shares for every one share held at a subscription price of HK$0.13 per rights share. The rights issue became unconditional on 22 August 2016 and 3,033,353,763 shares were issued and allotted on 24 August 2016. The gross proceeds from rights issue before share issue expenses, were HK$394,336,000 and the net proceeds of the rights issue will be HK$380,854,000. The Group use the net proceeds from the rights issue for the acquisition of Tung Fong Hung.

32. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme (the "SO Scheme") on 21 September 2009 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any persons being employees, directors, professionals, customers, suppliers, agents and consultants of the Company and its subsidiaries. The SO Scheme will remain in force for 10 years from the Adoption Date.

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the GEM Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within a 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the GEM Listing Rules.

The grant of share options is effective upon payment of a remittance of HK$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

During the year ended 31 December 2017, 337,000,000 share options (2016: nil) were granted to directors and employees of the Group under the SO Scheme.

All share-based compensation will be settled in equity. The Group has no legal or construction obligation to repurchase or settle the options other than issuing the Company's ordinary shares.

32. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Details of specific categories of options are as follows:

Date of grant	Vesting date	Exercisable period	Exercise price
22 August 2017	1 September 2017	1 September 2017 to 21 August 2027	HK$0.34

Categories of participants	Exercise price *HK$*	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2017
Directors	**0.34**	**–**	**75,000,000**	**(8,000,000)**	**–**	**67,000,000**
Employees	**0.34**	**–**	**196,000,000**	**–**	**(2,000,000)**	**194,000,000**
Consultants	**0.34**	**–**	**66,000,000**	**–**	**–**	**66,000,000**
		–	**337,000,000**	**(8,000,000)**	**(2,000,000)**	**327,000,000**

The fair value of the options granted on 22 August 2017 is approximately HK$60,507,000, which is fully recognised as an expense during the year ended 31 December 2017.

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

Share price at date of grant	HK$0.34
Exercise price	HK$0.34
Expected volatility	51.8%
Expected life	10 years
Risk-free rate	1.58%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price movement over the previous three months.

33. ACQUISITION OF A SUBSIDIARY

On 11 March 2015, Fame Treasure Global Limited (the "Purchaser"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with a third party, Master Journal Limited (the "Vendor"), for the acquisition of the entire equity in and the shareholder's loan of Tung Fong Hung. Based on the sale and purchase agreement (the "S&P Agreement"), the consideration of HK$600,000,000 is satisfied as to (i) HK$60,000,000 refundable deposit being paid upon signing of the S&P Agreement; (ii) HK$390,000,000 in cash upon the completion date; and (iii) by issue of Convertible Bonds I with principal amount of HK$150,000,000 (see details in note 29(a)).

In addition, pursuant to the S&P Agreement, the Vendor shall deliver to the Purchaser the completion accounts on the completion date (i.e. 22 August 2016). The net asset value under the completion accounts shall not be less than HK$344,386,000 as set out in the management accounts as at 30 November 2014 by HK$30,000,000 or more (the "Shortfall"). The Shortfall greater than HK$30,000,000 would be compensated by the Vendor to the Purchaser. On the completion date, the Vendor provided to the Purchaser an unaudited consolidated net asset value of Tung Fong Hung based on the tenth last business day prior to the completion date, of which the net asset value was HK$290,913,000, which was less than the mentioned management accounts as at 30 November 2014 by approximately HK$53,473,000. Therefore, the Shortfall greater than HK$30,000,000 of HK$23,473,000 was compensated by the Vendor and deducted from the cash consideration directly. As such, the remaining cash consideration would be HK$366,527,000 (i.e. HK$390,000,000 — HK$23,473,000).

This acquisition has been accounted for using the purchase method. The amounts of goodwill and intangible assets arising as a result of the acquisition were HK$163,216,000 and HK$156,185,000 respectively. Tung Fong Hung is engaged in retail business on sales of pharmaceutical and health food products in Hong Kong, Macau, and the PRC. Tung Fong Hung was acquired so as to diversify the existing business stream of the Group to enhance the long-term benefits of the Company and the shareholders as a whole.

The acquisition was completed on 22 August 2016, on which date control of Tung Fong Hung was passed to the Group.

Consideration transferred

	HK$'000
Convertible Bonds I (note 29(a))	166,292
Cash consideration[#]	426,527
Total	592,819

[#] The cash consideration represents the amount of HK$60,000,000 refundable deposit which had been paid during the year ended 31 December 2015 and the remaining balance of HK$366,527,000 after deducting the Shortfall as mentioned above.

Acquisition-related costs amounting to HK$10,734,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

33. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	83,301
Intangible assets (Note (i))	156,185
Deferred tax assets	1,181
Inventories	224,282
Trade receivables	12,585
Prepayments, deposits and other receivables	25,777
Pledged bank deposit	8,000
Bank balances and cash	22,437
Trade payables	(50,734)
Other payables and accruals	(15,341)
Deferred tax liabilities	(28,913)
Tax payable	(406)
Bank borrowing — current	(8,751)
Shareholder's loan	(34,861)
	394,742

The fair value of trade and other receivables at the date of acquisition amounted to HK$13,877,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$13,877,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	592,819
Fair value of net identified assets acquired	(394,742)
Assignment of shareholder's loan to the Group (Note (ii))	(34,861)
Goodwill arising on acquisition (Note (iii))	163,216
Less: Impairment loss recognised and allocated to goodwill at initial recognition	(57,958)
Carrying amount of goodwill (Note (iii))	105,258

33. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Notes:

(i) The directors of the Company are of the opinion that Tung Fong Hung has the ability to use the brand name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management, which supports that the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for Tung Fong Hung. Hence, the brand name of Tung Fong Hung is assumed to have an indefinite life.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at 22 August 2016.

The fair value of the intangible assets was calculated based on the Relief-from Royalty Method under Income Approach which used the revenue forecast based on the most recent financial budget for next five years in considering the economic condition of the market approved by management, using discount rate of 15.1% for Hong Kong, Macau and the PRC. Cash flows beyond the five-year period were extrapolated using growth rate of 2.8% for Hong Kong, Macau and the PRC.

(ii) As part of the acquisition arrangement, the consideration paid by the Group included an amount of HK$34,861,000 as consideration for the assignment of the shareholder's loan to Tung Fong Hung.

(iii) Goodwill arose in the acquisition of Tung Fong Hung because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected diversification, revenue growth, future market development and the assembled workforce of Tung Fong Hung. These benefits are not recognised separately from goodwill because they do not meet the criteria for identifiable intangible assets.

The goodwill has been allocated solely to the CGUs of Tung Fong Hung in Hong Kong, Macau and the PRC as the Group did not identify other CGUs that could be expected to benefit from the diversification on the acquisition. The recoverable amount of the CGUs of Tung Fong Hung, determined by using value in use, was HK$500,000,000 as at 22 August 2016.

The recoverable amount was determined with, the assistance of Ascent Partners Valuation Service Limited, a professional qualified valuer not connected with the Group. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and at a discount rate of 13.8%. Cash flows beyond the five-year period were extrapolated using a 2.8% growth rate in considering the economic conditions of the market.

The excess of the carrying amount of the assets and liabilities over the recoverable amount of HK$57,958,000 has been recognised as impairment. In the opinion of the directors of the Company, the impairment loss identified is mainly attributed to (i) the reduction in the number of PRC tourists; and (ii) the weakened consumer sentiment in response to the lackluster macro-economic conditions and the continued austerity initiatives in the PRC. All these factors have weakened the results of Tung Fong Hung significantly. Save for the aforesaid, the directors are aware of that the actual revenue and result from Tung Fong Hung have fallen below their original expectation and the current downturn of the retail market and economic conditions in Hong Kong, Macau and the PRC and therefore management has adjusted downward the cash flow projections accordingly and resulted in the impairment loss on goodwill.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

33. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Net cash outflow on acquisition of Tung Fong Hung

	HK$'000
Cash consideration paid	366,527
Less: Cash and cash equivalent balances acquired	(22,437)
	344,090

For the expansion of the Group's business, the Group acquired Tung Fong Hung which is engaged in retail business on sales of pharmaceutical and health food products.

Included in the loss for the year of 2016 is HK$1,933,000 attributable to the additional business generated from Tung Fong Hung.

Revenue for the year of 2016 includes HK$101,897,000 generated from Tung Fong Hung.

Had the acquisition been completed on 1 January 2016, total group revenue for the year of 2016 would have been HK$460,169,000, and loss for the year of 2016 would have been HK$89,050,000.

34. OPERATING LEASES

The Group as lessee

	2017 **HK$'000**	2016 HK$'000
Minimum lease payments paid under operating leases during the year	**71,388**	41,486

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for office, warehouse and retail shop premises which fall due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**44,616**	62,019
In the second to fifth years inclusive	**30,126**	33,360
	74,742	95,379

34. OPERATING LEASES (CONTINUED)

The Group as lessee (Continued)

Operating lease payments represent rentals paid or payable by the Group for certain of its office, warehouse and retail shop. Leases are negotiated for a lease term of one to four years (31 December 2016: one to four years) and rentals are fixed throughout the lease period.

There are certain lease arrangements for rented retail shop premises, according to which the Group is committed to pay minimum guaranteed amounts and additional monthly payments determined based on monthly sales levels.

There are concessionaire arrangements for concessionaire stores/counters within the shopping malls according to which the Group is committed to pay either minimum guaranteed amounts or concessionaire fees that are based on prescribed rates of corresponding sales level.

Most concessionaire arrangement are negotiated for terms ranging from one year to three years.

35. CAPITAL COMMITMENTS

	2017 ***HK$'000***	2016 *HK$'000*
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of plant and machinery	**732**	793

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings (note 28), convertible bonds (note 29), bonds and warrants (note 30) and accrued coupon interest (included in "other payables and accruals"), net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
At FVTPL	–	5
Loans and receivables (including cash and cash equivalents)	**315,417**	122,698
	315,417	122,703
Financial liabilities		
At FVTPL	**771,072**	133,441
Amortised cost	**172,858**	70,967
	943,930	204,408

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, bank and other borrowings, convertible bonds, bonds and warrants. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Group have purchases of goods and financial assets denominated in USD which is other than the functional currency of the relevant group entities and expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (representing pledged bank deposits) and monetary liabilities (representing trade payables) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
USD against SGD	**8,457**	7,748	**10,618**	7,584

37. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk* (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of USD against SGD (functional currency of the relevant group entity).

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in SGD against USD. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss where SGD strengthen by 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of SGD against the relevant currency, there would be an equal and opposite impact on the loss.

	USD Impact	
	2017	2016
	HK$'000	*HK$'000*
Loss after tax	**90**	(7)

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowing (see note 28 for details of the borrowing).

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 25) and variable-rate bank borrowing (note 28). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and Hong Kong Dollar Best Lending Rate arising from the Group's bank borrowing.

The Group currently does not have an interest rate hedging policy. However, management conducts periodic review of interest rate exposures and will consider hedging significant interest rate risk should the need arise.

In the opinion of the directors of the Company, the cash flow interest rate risk is considered insignificant and therefore no sensitivity analysis is presented.

37. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks or securities broker with good reputation.

The Group's concentration of credit risk on trade receivables by geographical locations is mainly in the PRC (2016: the PRC) which accounted for 64.5% (2016: 59.8%) of the total trade receivables balance at 31 December 2017. The Group also has concentration of credit risk as 18.0% (2016: 15.4%) and 48.1% (2016: 41.8%) of the total trade receivables was due from the Group's largest customer and five largest customers respectively. For the year ended 31 December 2017, the five largest debtors, which are engaged in sales of pharmaceutical and health food products in the PRC and other financial institutions (2016: corresponding banks and other financial institutions), have good repayment history and credit quality with reference to the track records of these debtors under internal assessment by the Group.

Other than concentration of credit risk on trade receivables and liquid funds which are deposited with several banks and securities broker with good reputation, the Group does not have any other significant concentration of credit risk.

Liquidity risk

The Group is exposed to liquidity risk as at the end of the reporting period as its financial assets due within one year was less than its financial liabilities due within one year and had net liabilities as of approximately HK$151,064,000 as at 31 December 2017. As explained in note 2, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operation and mitigate the effects of fluctuations in cash flows. The Group has planned measures to maintain a healthy cash and working capital position of the Group to ensure the Group's liquidity.

In addition, the directors of the Company monitor the utilisation of bank borrowings and ensure compliance with the relevant loan covenants. As at 31 December 2017, the Group has available unutilised banking facilities of approximately HK$20,500,000 (2016: HK$18,501,000).

37. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank and other borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the bank and lender choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017							
Non-derivative financial liabilities							
Trade payables	–	69,846	10,733	–	–	80,579	80,579
Other payables (excluding interest)	–	875	–	–	–	875	875
Bank borrowing — variable rate	3%	6,363	–	–	–	6,363	6,178
Other borrowing — fixed rate	12.5%	13,500	–	–	–	13,500	12,000
Bonds (including interest)	6%	1,500	–	103,000	–	104,500	73,226
		92,084	10,733	103,000	–	205,817	172,858
Derivative financial liabilities — net settlement							
Foreign exchange forward contracts		198	126	–	–	324	324
Convertible bonds		1,625	3,938	16,689	326,689	348,941	542,282
Warrants		–	–	–	–	–	228,466
		1,823	4,064	16,689	326,689	349,265	771,072

37. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

	Weighted average interest rate	On demand or less than 1 month *HK$'000*	1 month to 3 months *HK$'000*	3 months to 1 year *HK$'000*	1 year to 2 years *HK$'000*	2 years to 3 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2016								
Non-derivative financial liabilities								
Trade payables	–	40,914	8,184	11,195	–	–	60,293	60,293
Bills payable	4%	–	1,559	–	–	–	1,559	1,499
Other payables	–	1,058	–	–	–	–	1,058	1,058
Bank borrowing — variable rate	3%	8,361	–	–	–	–	8,361	8,117
		50,333	9,743	11,195	–	–	71,271	70,967
Derivative financial liabilities — net settlement								
Foreign exchange forward contracts		12	17	–	–	–	29	29
Convertible bonds		–	–	10,500	10,500	160,500	181,500	133,412
		12	17	10,500	10,500	160,500	181,529	133,441

Bank and other borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2017 and 31 December 2016, the aggregate undiscounted amounts of these borrowings amounted to HK$20,061,000 and HK$8,624,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the bank and lender will exercise their discretionary rights to demand immediate repayment. The directors believe that such borrowings will be repaid one to three years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis — Bank and other borrowings with a repayment on demand clause based on scheduled repayments

	Less than 1 year *HK$'000*	1–2 years *HK$'000*	2–5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2017	15,592	2,217	2,252	20,061	18,178
At 31 December 2016	2,156	2,156	4,312	8,624	8,117

The amounts included above for variable rate bank borrowing are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement of financial instruments

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Fair value hierarchy as at 31 December 2017

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial liabilities				
Derivative financial instruments	–	324	–	324
Convertible bonds	–	–	542,282	542,282
Warrants	–	–	228,466	228,466
	–	324	770,748	771,072

Fair value hierarchy as at 31 December 2016

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial asset				
Derivative financial instruments	–	5	–	5
Financial liabilities				
Derivative financial instruments	–	29	–	29
Convertible bonds	–	–	133,412	133,412
	–	29	133,412	133,441

37. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	Fair value as at 31.12.2017	31.12.2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	Liabilities — HK$324,000	Assets — HK$5,000; and Liabilities — HK$29,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Financial liabilities	Fair value as at 31.12.2017	31.12.2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input
Convertible bonds issued by the Group	Liabilities — HK$542,282,000	Liabilities — HK$133,412,000	Level 3	Black-Scholes Pricing Model Discount rate: 14.60%–14.64% (2016: 14.56%) Share price: HK$0.49 (2016: HK$0.108)	— Discount rate of 14.60%-14.64% (2016: 14.56%), taking into account of the credit standing of the Company (Note 1)
Warrants issued by the Group	Liabilities — HK$228,466,000	–	Level 3	Black-Scholes Pricing Model Expected volatility: 45.85% Share price: HK$0.49	— Expected volatility of 45.85%, taking into account of the volatility of the comparable companies as at 31 December 2017 (Note 2)

Notes:

1. A decrease in the discount rate used in isolation would result in an increase in the fair value measurement of the convertible bonds, and vice versa. A 5% decrease in the discount rate holding all other variables constant would increase the carrying amount of convertible bonds by HK$740,000 (2016: HK$250,000).

2. An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the warrants, and vice versa. A 5% increase in the expected volatility holding all other variables constant would increase the carrying amount of warrants by HK$5,000.

There were no transfers into or out of level 3 during the year.

37. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurements

31 December 2017

	Convertible bonds *HK$'000*	Warrants *HK$'000*	Total *HK$'000*
At 1 January 2017	**133,412**	**–**	**133,412**
Issuance of warrants	**–**	**38,420**	**38,420**
Issuance of convertible bonds	**310,000**	**–**	**310,000**
Redemption of convertible bonds	**(150,000)**	**–**	**(150,000)**
Loss on redemption	**23,290**	**–**	**23,290**
Accrued coupon interest	**(14,579)**	**–**	**(14,579)**
Loss on fair value changes	**240,159**	**190,046**	**430,205**
At 31 December 2017	**542,282**	**228,466**	**770,748**

31 December 2016

	Convertible bonds *HK$'000*
At 1 January 2016	–
Issuance of convertible bonds	166,292
Accrued coupon interest	(3,758)
Gains in profit or loss	(29,122)
At 31 December 2016	133,412

Of the total loss for the year included in profit or loss, HK$240,159,000 and HK$190,046,000, respectively, relate to convertible bonds and warrants held at the end of the reporting period. Fair value loss on convertible bonds and warrants are included in 'loss on fair value changes of convertible bonds' and 'loss on fair value changes of warrants' respectively.

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values due to short maturity.

38. NET DEBT RECONCILIATION

This section sets out an analysis of net debts for the year presented.

	Year ended 31 December 2017 HK$'000
Cash and cash equivalents	257,942
Bank and other borrowings	(18,178)
Convertible bonds	(542,282)
Bonds	(73,226)
Warrants	(228,466)
Accrued coupon interest (included in "other payables and accruals")	(3,254)
Net debt	(607,464)

The table below details changes in the Group's (i) other assets and liabilities and (ii) liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Cash and cash equivalents HK$'000	Bank and other borrowings (Note 28) HK$'000	Convertible bonds (Note 29) HK$'000	Bonds (Note 30) HK$'000	Warrants (Note 30) HK$'000	Accrued coupon interest (included in "other payables and accruals") (Note 26) HK$'000	Total HK$'000
At 1 January 2017	66,830	(8,117)	(133,412)	–	–	(3,758)	(78,457)
Cash inflows	188,550	–	–	–	–	–	188,550
Financing cash (in)outflows	–	(7,860)	(160,000)	(58,809)	(38,420)	17,614	(247,475)
Fair value adjustments	–	–	(240,159)	–	(190,046)	–	(430,205)
Exchange translation	2,562	–	–	–	–	–	2,562
Loss on redemption	–	–	(23,290)	–	–	–	(23,290)
Accrued coupon	–	–	14,579	2,531	–	(17,110)	–
Finance costs	–	(2,201)	–	(16,948)	–	–	(19,149)
At 31 December 2017	257,942	(18,178)	(542,282)	(73,226)	(228,466)	(3,254)	(607,464)

39. RELATED PARTY TRANSACTIONS

(a) Related party balance and transaction

There was no transaction with related party during the years ended 31 December 2017 and 2016 nor outstanding balance with related party as at 31 December 2017 and 2016.

(b) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly.

The remuneration of directors and other members of key management during the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**17,732**	3,738
Post-employment benefits	**93**	82
	17,825	3,820

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 of relevant salaries and allowances to the MPF Scheme, which contribution is matched by the employees.

The employees of the Group's subsidiary in Singapore are members of the Central Provident Fund Scheme ("CPF Scheme") a state-managed retirement benefit scheme operated by Singapore Government. The Group is required to contribute ranging from 12% to 16% of payroll costs to the Central Provident Fund Scheme to fund the benefit. The only obligation of the Group with respect of the Central Provident Fund Scheme is to make the specific contributions. Contributions to the national pension scheme are recognised as an expense in the period in which the related service is performed.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme ("CPS Scheme") operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately HK$6,811,000 (2016: HK$3,025,000) represents contributions payable to the MPF Scheme, CPS Scheme and CPF Scheme by the Group in respect of the year ended 31 December 2017. As at 31 December 2017, contributions of HK$488,000 (2016: HK$534,000) due in respect of the respective year ended had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		–	–
Investments in subsidiaries		337,086	8
		337,086	8
Current assets			
Prepayments and other receivables		72,415	977
Amounts due from subsidiaries		224,528	568,022
Bank balances		12,205	9,511
		309,148	578,510
Current liabilities			
Accruals		8,421	8,072
Amounts due to subsidiaries		54,932	45,399
Other borrowing		12,000	–
Convertible bonds		–	133,412
Bonds		73,226	–
Warrants		228,466	–
		377,045	186,883
Net current (liabilities) assets		(67,897)	391,627
Total assets less current liabilities		269,189	391,635
Non-current liability			
Convertible bonds — due after one year		542,282	–
Net (liabilities) assets		(273,093)	391,635
Capital and reserves			
Share capital	30	33,784	33,704
Share premium and reserves		(306,877)	357,931
		(273,093)	391,635

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Share premium HK$'000	Capital contribution reserve HK$'000 Note (i)	Contributed surplus HK$'000 Note (ii)	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	599,171	3,988	5,689	–	(305,550)	303,298
Loss and total comprehensive expense for the year	–	–	–	–	(326,221)	(326,221)
Capital reorganisation (Note 31(i))	(599,171)	–	629,505	–	–	30,334
Issue of shares upon rights issues (Note 30(ii))	350,520	–	–	–	–	350,520
At 31 December 2016	350,520	3,988	635,194	–	(631,771)	357,931
Loss and total comprehensive expense for the year	–	–	–	–	(727,955)	(727,955)
Recognition of equity-settled share-based payments	–	–	–	60,507	–	60,507
Issue of shares upon exercise of share options	4,088	–	–	(1,448)	–	2,640
Reversal of equity-settled share-based payments	–	–	–	(362)	362	–
At 31 December 2017	354,608	3,988	635,194	58,697	(1,359,364)	(306,877)

Notes:

(i) The capital contribution reserve represented the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholders.

(ii) Contributed surplus of the Company represented (i) the sum of difference between the net assets value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the reorganisation and (ii) effect of capital reorganisation as detailed in note 31(i).

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ registration and type of legal entity	Particulars of issued share capital/paid-up registered capital	Percentage of equity interest attributable to the Company 2017	2016	Proportion of voting power held by the Company Directly	Indirectly	Principal activity and place of operation
Larry Jewelry Development Limited	Hong Kong, limited liability company	9,999 ordinary shares of HK$1 each	**100%**	100%	–	100%	Design and sale of jewelry products in Hong Kong
Larry Jewelry Limited	Hong Kong, limited liability company	50,000,000 ordinary shares of HK$1 each	**100%**	100%	–	100%	Design and sales of jewelry products in Hong Kong
Larry Jewelry (1967) Pte. Ltd.	Singapore, limited liability company	13,800,000 ordinary shares of SGD1 each	**100%**	100%	–	100%	Design and sales of jewelry products in Singapore
New Larry Jewelry Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1 each	**100%**	100%	–	100%	Provision of administrative and management services in Hong Kong
Vera Jewels Company Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1 each	**100%**	100%	–	100%	Design and sales of jewelry products in Hong Kong
Tung Fong Hung Property Investment Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	**100%**	100%	–	100%	Property holding in Hong Kong
TFH Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Provision of management, advisory and marketing services in Hong Kong
TFH Manufacturing Company Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Manufacturing and processing of Chinese medicine, health products and foodstuffs in Hong Kong
Tung Fong Hung Medicine Company, Limited	Hong Kong, limited liability company	10,011 ordinary shares of HK$0.1 each	**100%**	100%	–	100%	Retailing of Chinese medicine and foodstuff and holding the trademark in Hong Kong
Tung Fong Hung Foods Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Distribution of Chinese medicine and health food in Hong Kong
Red More Foods Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	**100%**	100%	–	100%	Retailing of foodstuffs in Hong Kong

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and type of legal entity	Particulars of issued share capital/paid-up registered capital	Percentage of equity interest attributable to the Company 2017	2016	Proportion of voting power held by the Company Directly	Indirectly	Principal activity and place of operation
Time Fortune International Limited	Hong Kong, limited liability company	10 ordinary shares of HK$1 each	**100%**	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Hong Kong
Tung Fong Hung Outlet Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	**100%**	100%	–	100%	Provision of retail operator in Hong Kong
Tung Fong Hung Medicine (Retail) Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Provision of retail operator in Hong Kong
Cosmos Profit International Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Provision of retail operator in Hong Kong
TFH Consultation Services Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	**100%**	100%	–	100%	Management services in Hong Kong
Exalt Investment Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	**100%**	100%	–	100%	Investment holding of trademark in the PRC
Tung Fong Hung Medicine Company (Macau) Limited	Macau, limited liability company	100,000 ordinary shares of MOP1 each	**100%**	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Macau
Time Fortune (Macau) Limited	Macau, limited liability company	25,000 ordinary shares of MOP1 each	**100%**	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Macau
廣州市東方紅保健品有限公司	The PRC, limited liability company	HK$10,000,000	**100%**	100%	–	100%	Retailing and distributing dried seafood, luxury food products and herbal medicine in the PRC
廣東正美醫藥有限公司	The PRC, limited liability company	RMB2,000,000	**100%**	100%	–	100%	Retailing and distributing dried seafood, luxury food products and herbal medicine in the PRC

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during both years.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The majority of these subsidiaries operate in the British Virgin Islands (the "BVI"). The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Investment holding	The BVI	**13**	13
	Hong Kong	**3**	5
Inactive	The BVI	**6**	2
	Hong Kong	**6**	3
	Macau	**2**	2
	The PRC	**1**	2
		31	27

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to current year presentation. These reclassifications have no effect on the Group's net financial performance and net financial position.